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Montana Department of
REVENUE

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REVENUE ESTIMATES
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EXECUTIVE REVENUE ESTIMATES
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Individual Income Tax Report
Will be completed by October 30, 1998

CORPORATION LICENSE TAX
General Fund Revenue Estimate

Revenue Description

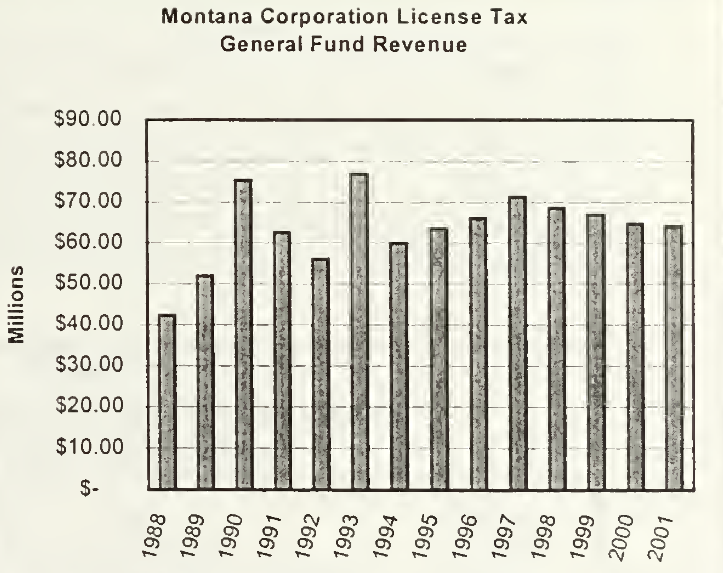
The Corporation License Tax is a tax on corporate income attributable to Montana. The tax essentially has a single rate of 6.75 percent of net income. Revenues are deposited 100 percent into the General Fund, except that 80 percent of taxes, penalties and interest received from financial institutions are redistributed to local governments.

Historical and Projected Revenue

Table 1 shows historic and projected revenue from this source over the period fiscal 1988 through fiscal 2001.

Table 1
Corporation License Tax Historical and Forecast Revenue (millions)

	Fiscal Year	Total General Fund Portion	GF Share Annual % Change
A	1988	$ 42.230	
A	1989	$ 51.857	22.80%
A	1990	$ 75.380	45.36%
A	1991	$ 62.576	-16.99%
A	1992	$ 50.081	-10.38%
A	1993	$ 76.893	37.11%
A	1994	$ 60.056	-21.90%
A	1995	$ 63.569	5.85%
A	1996	$ 66.085	3.96%
A	1997	$ 71.291	7.88%
A	1998	$ 68.525	-3.88%
F	**1999**	**$ 66.945**	**-2.31%**
F	**2000**	**$ 64.606**	**-3.49%**
F	**2001**	**$ 64.000**	**-0.94%**



Forecast Methodology and Projected Calculation

Corporation License Tax revenue can be categorized into two general categories: 1) "regular" tax revenue from tax payments included with tax returns and estimated

tax payments; and 2) "other" revenue generated from audit activity, penalties and interest. Different techniques are used to estimate revenue in each category.

Two approaches to estimating the "regular" Corporation License Tax revenue were evaluated. The first approach uses projected US Corporate pre-Tax Profits and regression analysis to forecast Montana corporate taxable income. The second approach considers projected US Corporate Pre-Tax Profits, recent economic conditions and professional judgement to forecast Montana corporate taxable income. The Department ultimately used the second approach for reasons that will be discussed in detail later in this narrative.

The second revenue category is projected using historical revenues, and judgement based on discussions with Department of Revenue audit managers and current activity.

Approach 1 -- Regression Analysis

Regression analysis is a statistical technique that examines the relationship between a dependent variable (Montana Corporate Taxable Income) and an independent variable (we used U.S. Corporate Pre-Tax profits). This technique was used to predict the future value of Montana corporate taxable income. The tax rate (6.75%) was then applied to estimate Corporation License Tax revenues.

The first step in the regression model is to determine historical values of the dependent variable (Montana Corporate Taxable Income) used in the model. This is accomplished by using total corporate tax revenues from SBAS (since fiscal 1993) and subtracting types of revenues that are not associated with taxable income in the given tax year (audits, penalties and interest). Dividing these adjusted revenues by the tax rate yields an estimate for total taxable income. Table 2 shows how Montana Corporate Taxable Income was calculated for fiscal years 1993 through 1998.

Table 2
Historical Montana Corporate Taxable Income
Fiscal Years 1993 - 1998

Fiscal Year	Total Corporation License Tax	-	Audits and Penalties and Interest	=	Tax Related Collections	/	Tax Rate	=	MT Corp. Taxable Income
1993	$ 85,054,483	-	$ 24,659,790	=	$ 60,394,693	/	6.75%	=	$ 894,736,193
1994	$ 68,871,910	-	$ 4,749,735	=	$ 64,122,175	/	6.75%	=	$ 949,958,148
1995	$ 75,519,940	-	$ 8,597,591	=	$ 66,922,349	/	6.75%	=	$ 991,442,207
1996	$ 75,761,892	-	$ 5,055,286	=	$ 70,706,606	/	6.75%	=	$ 1,047,505,274
1997	$ 81,999,138	-	$ 7,514,445	=	$ 74,484,693	/	6.75%	=	$ 1,103,476,933
1998	$ 77,928,498	-	$ 4,387,133	=	$ 73,541,365	/	6.75%	=	$ 1,089,501,704

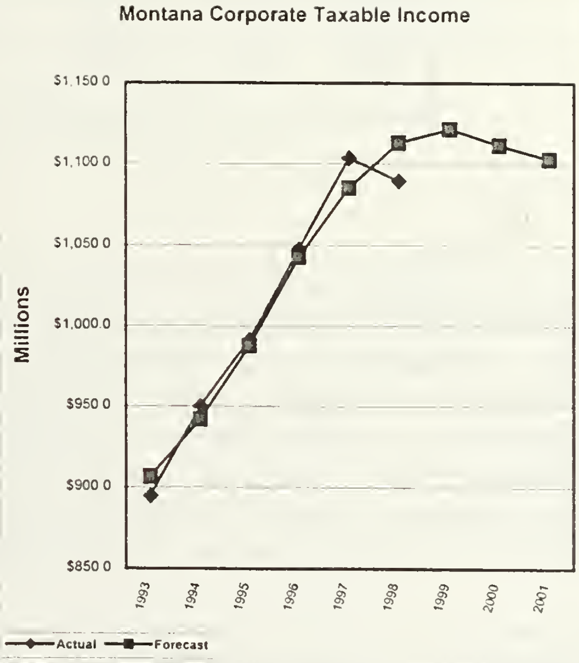
Calculated values for Montana Corporate Taxable Income are then regressed against US Corporate Pre-Tax Profits (lagged one year and converted to a fiscal year basis) to quantify the statistical relationship between the two variables. Data values for historical and projected US Corporate Pre-Tax Profits are obtained from Wharton Econometric Forecasting Associates and are shown in Table 11 under Data Sources.

The results of the regression analysis are shown in Table 3. The regression line (the forecast amount) is compared to actual Montana Corporate Taxable Income. As shown on Table 3, the regression line does a good job of estimating what actual Montana corporate taxable income levels are from fiscal years 1993 to 1996. However, in fiscal 1997 the model underestimates Montana taxable income by $18 million, or 1.6 percent and in fiscal 1998 the model overestimates Montana taxable income by $23 million, or 2.1 percent.

Table 3

Regression Results -- Montana Corporate Taxable Income

	Fiscal Year	Montana Taxable Income Actual	Montana Taxable Income Forecast
A	1993	$ 894.74	$ 906.46
A	1994	$ 949.96	$ 941.68
A	1995	$ 991.44	$ 987.48
A	1996	$ 1,047.51	$ 1,042.47
A	1997	$ 1,103.48	$ 1,085.34
A	1998	$ 1,089.50	$ 1,112.78
F	**1999**		**$ 1,121.30**
F	**2000**		**$ 1,111.32**
F	**2001**		**$ 1,102.63**



This discrepancy between forecast and actual values is one reason why Approach 2 was used to estimate Montana corporate taxable income. Another reason is fluctuating data values from Wharton between August and September 1998. The US Corporate Pre-Tax Profit data values in Table 11 are from Wharton's September 1998 report and are the most current estimates available at the time this narrative was written (October 1998). Table 4 compares the data values contained in the August 1998 report to the September 1998 report. Wharton's projection for US Corporate Pre-Tax Profits decreased 8.5% to 9% in one month.

Table 4
US Corporate Pre-Tax Profits Estimate (Billions)
August 1998 vs. September 1998

	Calendar Year	August Forecast	September Forecast	Percent Change
Actual	1996	$ 680.2	$ 680.2	0.00%
Actual	1997	$ 734.4	$ 734.4	0.00%
Forecast	1998	$ 723.7	$ 711.8	-1.64%
Forecast	1999	$ 767.7	$ 697.4	-9.16%
Forecast	2000	$ 744.5	$ 680.1	-8.65%
Forecast	2001	$ 757.5	$ 692.8	-8.54%

Approach 2 – Subjective Analysis

Although the regression model from Approach 1 predicts a reduction in the 2001 biennium for Montana corporate taxable income, information obtained from other western states and national sources suggests the revenue estimate may need to respond faster to economic conditions than the model responds. The Center for the Study of the States reports a nationwide 2.1 percent decline in corporation tax revenues in the second quarter of this year. The State of Utah is assuming significant US Corporate Pre-Tax Profit declines as it forecasts state revenue, and Idaho is experiencing corporation tax receipts below projections in fiscal 1999.

For all of the issues noted above, an alternative approach was used to estimate Montana corporate taxable income. This approach evaluates projected US Corporate Pre-Tax Profits from various sources and uses professional judgement to develop the Montana corporate taxable income forecast. Table 5 illustrates the three US Corporate Pre-Tax Profits estimates evaluated for the revenue estimation process. Two of the three sources predicted declines in US Corporate Pre-Tax Profits over the forecast period. Congressional Budget Office data is from its August 1998 semiannual report and will be updated again in January 1999. Wharton data is from its September 1998 economic report and the State of Utah data is also from September 1998.

The forecasted US Corporate Pre-Tax Profits estimates and the input from other western states was evaluated. It was determined a decrease in Montana corporate taxable income is likely.

Table 6 shows the annual percent change used to estimate corporate taxable income for fiscal years 1999 to 2001 and the estimated Corporate License Tax revenue after applying the Corporate License Tax rate of 6.75 percent.

Table 5
US Corporate Pre-Tax Profit Estimates Considered by Executive for Revenue Estimation Process

Congressional Budget Office

		Est. Profits	% Change
Actual	1996		
Actual	1997	$ 554.0	
Forecast	1998	$ 568.0	2.53%
Forecast	1999	$ 581.0	2.29%
Forecast	2000	$ 594.0	2.24%
Forecast	2001	$ 593.0	-0.17%

Estimated Taxable corporate profits, "The Economic and Budget Outlook: An Update", August 1998

Wharton

		Est. Profits	% Change
Actual	1996	$ 680.2	
Actual	1997	$ 734.4	7.97%
Forecast	1998	$ 711.8	-3.08%
Forecast	1999	$ 697.4	-2.02%
Forecast	2000	$ 680.1	-2.48%
Forecast	2001	$ 692.8	1.87%

U.S. Economic Outlook, September 1998

Utah

		Est. Profits	% Change
Actual	1996	$ 679.0	
Actual	1997	$ 741.3	9.18%
Forecast	1998	$ 719.1	-2.99%
Forecast	1999	$ 688.1	-4.31%
Forecast	2000	$ 669.6	-2.69%
Forecast	2001	not estimated	

Actual and Estimated Economic Indicators Utah and the US: September 1998, Council of Economic Advisor's Revenue Assumptions Committee.

Table 6
Forecasted Montana Corporate Taxable Income and "Regular" Corporation License Tax Revenue
Fiscal Years 1999 - 2001

	Fiscal Year	MT Corp. Taxable Income	Est. % Change in Corp. Taxable Income	X	Tax Rate	=	"Regular" Corp. License Tax Revenue
Actual	1998	$ 1,089,501,689					
Forecast	1999	$ 1,056,800,000	-3.00%	X	6.75%	=	$ 71,334,000
Forecast	2000	$ 1,030,400,000	-2.50%	X	6.75%	=	$ 69,552,000
Forecast	2001	$ 1,020,100,000	-1.00%	X	6.75%	=	$ 68,856,750

Section 15-31-702, MCA provides that 80 percent of Corporation License Tax, interest, and penalties related to financial institutions shall be returned to local taxing jurisdictions; the remaining 20 percent is deposited to the General Fund. The amount of Corporation License Tax attributable to financial institutions is estimated to remain at the same approximate percentage of "regular" corporation license tax revenue as it was in fiscal 1998. Table 7 shows the portion of Corporation License Tax attributable to financial institutions for fiscal years 1993 to 2001. Corporation tax managers confirm that the federal law change allowing financial institutions to convert to a Subchapter S Corporation has not had a significant impact on Corporation License Tax paid by financial institutions.

Table 7
Financial Institution Percentage of Corporation License Tax
Fiscal Years 1993 - 2001

Fiscal Year	"Regular" Corporation License Tax Revenue	"Regular" Corp. Tax from Financial Institutions*	Percent from Financial Institutions
1993	$ 60,394,693	$ 10,202,390	16.89%
1994	$ 64,122,175	$ 11,019,908	17.19%
1995	$ 66,922,349	$ 14,938,684	22.32%
1996	$ 70,706,606	$ 12,096,658	17.11%
1997	$ 74,484,693	$ 13,385,755	17.97%
1998	$ 73,541,365	$ 11,753,879	15.98%
	----------Forecast----------		
1999	$ 71,334,000	$ 11,399,173	15.98%
2000	$ 69,552,000	$ 11,114,410	15.98%
2001	$ 68,856,750	$ 11,003,309	15.98%

Note: Fiscal 1998 actual amount reflects $1,499,106 SBAS adjustment made in fiscal 1999 for a coding error.

Table 8 shows the calculation for the portion of regular Corporation License Tax that is estimated to be returned to local government and the portion that will be deposited to the General Fund.

Table 8
Calculation of Corporation License Tax from Financial Institutions and Distribution to Local Government and General Fund
Fiscal Years 1999 - 2001

Fiscal Year	(A) "Regular" Corporation License Tax Revenue	X	(B) Estimated Financial Institution Portion*	=	(C) "Regular" Corporation Tax from Financial Institutions	X 80% =	(D) Financial Institution Corp Tax to Local Governments	(E) Regular Corp Tax To Genral Fund (Col A - Col D)
1999	$ 71,334,000	X	15.98%	=	$ 11,399,173	X 80% =	$ 9,119,338	$ 62,214,662
2000	$ 69,552,000	X	15.98%	=	$ 11,114,410	X 80% =	$ 8,891,528	$ 60,660,472
2001	$ 68,856,750	X	15.98%	=	$ 11,003,309	X 80% =	$ 8,802,647	$ 60,054,103

*Estimated percentage includes interest & penalties as well as corporation license tax payments.

Other Corporation License Tax Revenue

The second corporate tax revenue category includes audits and penalties and interest. These revenues are projected using historical trends and judgement. Actual and projected values for these other Corporation License Tax revenue sources are shown for fiscal years 1993 – 2001 in Table 9.

Fiscal 1999 audit revenue is expected to be about the same as fiscal 1998. Audit revenues are projected to decrease in the 2001 biennium from actual collection levels in recent years due to the impact of reduced audit activity and staffing levels in the 1999 biennium. Audit revenue for each year of the 2001 biennium is 60 percent of the average of audit revenues from fiscal years 1994 through 1998.

Penalties and interest revenue is estimated as the average of fiscal years 1994, 1996 and 1998. These years were judged to be more consistent with the level of audit collections and therefore, more representative of the amounts to be expected in the 2001 biennium.

Table 9
Corporation License Tax
Audit, Penalties and Interest Collections

	Fiscal Year	Audit Collections	Penalties & Interest
A	1993	$ 13,578,449	$ 11,081,341
A	1994	$ 3,097,930	$ 1,651,805
A	1995	$ 5,000,545	$ 3,597,046
A	1996	$ 3,236,302	$ 1,818,984
A	1997	$ 4,909,465	$ 2,604,980
A	1998	$ 2,918,601	$ 1,468,532
F	**1999**	**$ 3,084,000**	**$ 1,646,000**
F	**2000**	**$ 2,300,000**	**$ 1,646,000**
F	**2001**	**$ 2,300,000**	**$ 1,646,000**

MPC Sale of Generation Assets

The sale of Montana Power Company's electricity generation assets is expected to occur in either calendar year 1998 or 1999 with the corporate license tax payment occurring in either fiscal 1999 or 2000. The Department of Revenue anticipates receiving more information on the sale by late fall 1998.

Summary

Table 10 summarizes the actual and forecast Montana Corporation License Tax revenues from all sources for fiscal years 1997 – 2001 and the distribution of this revenue to the General Fund and local government.

Table 10
Montana Corporation License Tax Collections and Distribution
Historical and Projected
Fiscal Years 1997 - 2001

	Actual		Forecast		
Description	FY 1997	FY 1998	FY 1999	FY 2000	FY 2001
Revenue:					
1) Corporation Tax	$ 74,484,693	$ 73,541,364	$ 71,334,000	$ 69,552,000	$ 68,856,750
2) Audits	4,909,465	2,918,601	3,084,000	2,300,000	2,300,000
3) Penalties & Interest	2,604,980	1,468,532	1,646,000	1,646,000	1,646,000
4) MPC Sale of Assets	-	-	-	-	-
Total Revenue	$ 81,999,138	$ 77,928,497	$ 76,064,000	$ 73,498,000	$ 72,802,750
Distribution:					
1) General fund	$ 71,290,534	$ 68,525,394	$ 66,944,662	$ 64,606,472	$ 64,000,103
2) Local governments	10,708,604	9,403,103	9,119,338	8,891,528	8,802,647
Total Distribution	$ 81,999,138	$ 77,928,497	$ 76,064,000	$ 73,498,000	$ 72,802,750

Data Sources

Historical revenue data is gathered from SBAS revenue reports. Actual and projected values for U.S. Corporate Pre-Tax Profits are from the September 1998 Wharton U.S. Economic Outlook report, the Congressional Budget Office August 1998 Economic and Budget Outlook report, and the State of Utah September 1998 Council of Economic Advisor's Economic Indicator report. The State of Idaho provided information on fiscal 1999 corporation tax revenue. The August 31, 1998 edition of *TaxExpress*, a weekly publication of the Federation of Tax Administrators and the Multistate Tax Commission, reported results of the Center for the Study of the States findings of corporation tax revenues for the second quarter of 1998. Corporation tax audit managers provided information on audit activity levels. The Montana Power Company provided information on the sale of generation assets.

Table 11 presents the US Corporate Pre-tax Profit data used in the regression analysis.

Table 11
Historical and Projected U.S. Corporate Pre-tax Profits (billions)

Calendar Year	Profits	Fiscal Year	Profits lagged 1 year and converted to fiscal year	Annual % Change
1991	$ 374.20			
1992	$ 406.40	1993	$ 390.30	
1993	$ 465.40	1994	$ 435.90	11.68%
1994	$ 535.10	1995	$ 500.25	14.76%
1995	$ 635.60	1996	$ 585.35	17.01%
1996	$ 680.20	1997	$ 657.90	12.39%
1997	$ 734.40	1998	$ 707.30	7.51%
1998	$ 711.80	1999	$ 723.10	2.23%
1999	$ 697.40	2000	$ 704.60	-2.56%
2000	$ 680.10	2001	$ 688.75	-2.25%
2001	$ 692.80			

Property Tax

General Fund Revenue Estimate

Revenue Description

Property tax revenue comes directly from property tax revenues generated by mills levied on property and indirectly from non-levy revenue sources.

Currently, direct mill levies are 95 mills (school equalization) levied on property statewide and 1.5 mills (vo-tech) levied on property in counties where colleges of technology reside (Silver Bow, Cascade, Yellowstone, Missoula, and Lewis and Clark Counties). A statewide mill levy for schools was first required by law beginning in fiscal 1974 and was set at 40 mills. This was increased to 45 mills in fiscal 1983. The levy was increased to the current level of 95 mills in fiscal 1991.

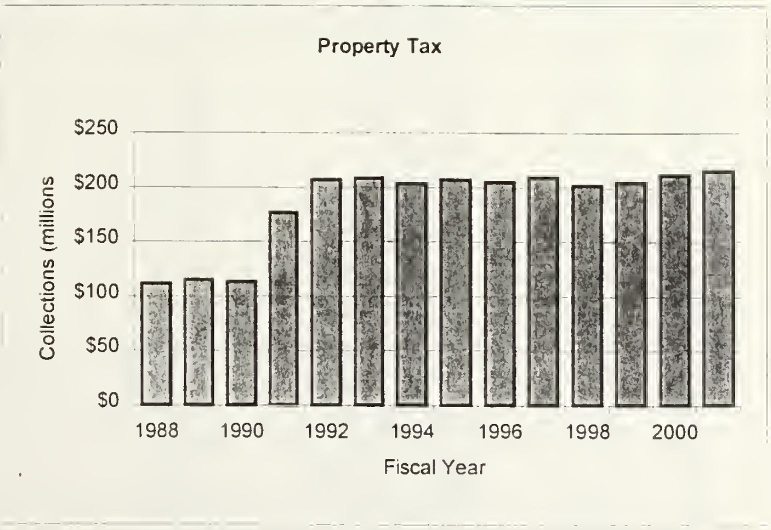
Non-levy revenue comes from sources other than a direct property tax mill levy. Generally, non-levy revenues are distributed to taxing jurisdictions based on the relative share of the total mills levied by all affected taxing jurisdictions. Non-levy revenue sources are: motor vehicle taxes, oil and gas production taxes, coal gross proceeds, financial institution taxes, and other smaller revenue sources.

Historic and Projected Revenues

Table 1 shows historic and projected General Fund property tax collections, under current law allocations, for fiscal years 1988 to 2001.

Table 1
Property Tax
General Fund Collections (Current Law Allocations)
(millions)

	Fiscal Year	General Fund	Percent Change
A	1988	$111.961	NA
A	1989	$115.319	3.00%
A	1990	$113.238	-1.80%
A	1991	$177.025	56.33%
A	1992	$207.084	16.98%
A	1993	$208.542	0.70%
A	1994	$203.357	-2.49%
A	1995	$206.857	1.72%
A	1996	$205.111	-0.84%
A	1997	$209.284	2.03%
A	1998	$202.350	-3.31%
F	**1999**	**$204.644**	**1.13%**
F	**2000**	**$211.298**	**3.25%**
F	**2001**	**$215.005**	**1.75%**



Forecast Methodology and Projection Calculation

The property tax projection is a combination of several projections. As noted above revenue for this source comes from property tax mill levies and from non-levy revenue sources. The methodology used to forecast the revenue from the property tax mill levies involves estimating taxable value and making appropriate adjustments to the taxable value. The methodology used to forecast revenue from non-levy revenue sources relies on estimates of the particular revenue sources.

Forecast Methodology and Projection - Property Tax Mill Levy Revenue

Calculating property tax mill levy revenue is done simply by multiplying the appropriate taxable value times the mill levy. The property tax mill levy revenue generated by the statewide 95 mill levy is determined by multiplying 95 mills times the appropriate statewide taxable value and then adjusting that value for SB417 reimbursements. The property tax mill levy revenue generated by the 1.5 vo-tech mill is calculated by multiplying 1.5 mills times the taxable value of the five technology school counties.

The first step in this projection is to estimate the taxable value of property for the coming fiscal years. An examination of historical valuation data is done and valuation growth rates are determined for the different classes of property. The growth rates are then applied to actual tax year 1998 valuation data. Table 2 shows the percent of total statewide taxable value in each class. The table also shows the tax year 1998 taxable value of each property class and the projected growth rate for the class. A single growth rate was determined for classes 1, 2, 5, 6, 7, and 10 as a group. Separate growth rates are determined for classes 3, 4, 8, 9, and 12.

Table 2

Property Classes and Growth Rates

Class	Description	Percent of Total TV	1998 Taxable Value	Estimated Growth Rate
1	Net Proceeds of Mines	0.4%	7,625,083	0.0%
2	Gross Proceeds of Mines	0.5%	8,780,907	0.0%
5	Rural Co-Op/Poll. Cont.	1.8%	34,068,494	0.0%
6	Livestock	1.2%	23,833,179	0.0%
7	Independent Telephone	0.1%	1,783,935	0.0%
10	Timberland	0.4%	7,677,880	0.0%
	Subtotal	4.3%	83,769,478	
3	Agricultural Land	7.4%	143,007,340	-0.4%
4	Res./Comm. Real Prop.	49.0%	952,059,326	3.4%
8	Business Personal Property	10.5%	203,383,267	3.4%
9	Utilities	25.5%	494,534,742	1.9%
12	Airlines/Railroads	3.4%	65,266,087	2.5%
	Subtotal	95.7%	1,858,250,762	
	Total Taxable Value	**100.0%**	**1,942,020,240**	2.6%

Classes 1, 2, 5, 6, 7, and 10

Although this group comprises six of the eleven classes of property, it is only 4.3% of the total taxable valuation in tax year 1998. The valuation of this property has changed very little since 1990 as shown in Table 3. In tax year 1990 the taxable value of this group was $84,721,659. The taxable value in tax year 1998 is $83,769,478. In the eight years since 1990 the valuation has decreased five times and increased three times. Each year the change has been less than 4% up or down. Because of this stability, a 0% growth rate will be used to project future taxable value for this group of property.

Table 3

Combined Taxable Value of Classes 1, 2, 5, 6, 7, and 10

Tax Year	Taxable Value	Annual % Change
1990	84,721,659	
1991	83,098,082	-1.9%
1992	82,036,686	-1.3%
1993	78,859,061	-3.9%
1994	77,581,213	-1.6%
1995	79,285,422	2.2%
1996	82,039,559	3.5%
1997	80,962,890	-1.3%
1998	83,769,478	3.5%

Class 3 (Agricultural Land)

Since there is no new construction of agricultural land, the only impact to the valuation of agricultural land is the annual phase-in of the 1997 reappraisal and the annual reduction of the class 3 taxable rate. The impact due to this the past two years has been -0.3% and -0.5%. The growth rate for the change in taxable value for agricultural land will be -0.4% per year.

Class 4 (Residential and Commercial Real Property)

Unlike agricultural land, new construction adds to the valuation of class 4 property. Like agricultural land, the 1997 reappraisal of class 4 property is annually phased-in and the taxable rate of class 4 property is annually reduced. The phase-in and reduction in rate offset each other and therefore have no impact on the change in total valuation of class 4 property. Historically, the change in valuation of class 4 property has been steady with little variation. As seen in Table 4, for the last seven non-reappraisal years the annual change has ranged from 2.6% to 4.0%. The growth rate for class 4 property will be 3.4%, the average of the annual changes.

Table 4

Taxable Value of Class 4

Tax Year	Taxable Value	Annual % Change
1990	672,897,633	
1991	695,715,364	3.4%
1992	713,678,485	2.6%
1993 *	797,179,686	11.7%
1994	824,724,682	3.5%
1995	856,394,137	3.8%
1996	884,319,887	3.3%
1997	920,067,351	4.0%
1998	952,059,326	3.5%

* A reappraisal year.

Class 8 (Business Equipment)

When examining the change in taxable value of class 8 property, changes in the taxable rate must be taken into account. Other factors that must be accounted for are the removal of vehicles from the tax base and new business equipment valuation in a Silver Bow County tax increment finance (TIF) district. The taxable value of the business equipment in the TIF is $16,616,176. Although this value is included in the total taxable value of class 8 property, it cannot be included as taxable property for state purposes. This is because it is new property in a TIF and all property taxes on new property are paid to the TIF with no property taxes paid to the state (with the exception of the university 6 mill levy).

After making the appropriate adjustments, the annual change in the taxable value of business equipment can be fairly measured. The results are shown in Table 5. Over the last eight years the change has been positive, ranging from 1.0% to 7.5%. Without the 7.5% change, the annual change ranges from 1.0% to 5.2%, with an average change of 3.4%. There could be a consideration for giving more weight to the changes in the last three years. These are years in which the taxable rate was reduced. There is a school of thought that reducing the rate would spur an increase in business equipment valuation. If so, the change in valuation for the last three years should be significantly higher than for the previous years. This is not the case. The average change for the last three years is 3.5%. The growth rate used for business equipment is 3.4%.

Table 5
Taxable Value of Class 8

Tax Year	Annual % Change
1991	2.9%
1992	2.6%
1993	4.1%
1994	7.5%
1995	3.7%
1996	1.0%
1997	4.3%
1998	5.2%

Class 9 (Utility Property)

Table 6 shows the annual change in the taxable value of class 9 property. The annual change has been steady for the last eight years with the exception of two years. The change was 4.4% from 1995 to 1996 and the change was 8.0% from 1996 to 1997. Without these two years, the annual change ranges from 0.9% to 3.5% with an average change of 1.9%. The average change of 1.9% is used to trend class 9 property.

Table 6
Taxable Value of Class 9

Tax Year	Taxable Value	Annual % Change
1990	391,742,490	
1991	395,328,590	0.9%
1992	409,123,653	3.5%
1993	413,946,032	1.2%
1994	421,112,094	1.7%
1995	427,834,515	1.6%
1996	446,457,343	4.4%
1997	481,958,252	8.0%
1998	494,534,742	2.6%

Class 12 (Railroad and Airline Property)

When examining the change in taxable value to class 12 property, adjustments must be made to account for changes in the taxable rate. When this is done, it is seen in Table 7 that the change in valuation varies from -15.3% to 16.1%. Another large annual change is 13.7%. When these three outliers are removed from the analysis, the change ranges from -1.9% to 5.4% with an average change of 2.5%. The growth rate used to trend class 12 property is the average change of 2.5%

Table 7

Taxable Value of Class 9

Tax Year	Annual % Change
1991	-15.3%
1992	2.1%
1993	13.7%
1994	3.4%
1995	3.3%
1996	16.1%
1997	5.4%
1998	-1.9%

With the trends determined, the statewide taxable value for the coming fiscal years can be estimated. These estimates are shown in Table 8 below.

Table 8

Actual Fiscal 1999 Statewide Taxable Value Trended Forward

Property Class	Tax Year 1998 (Fiscal 1999)	Trend Factor	Tax Year 1999 (Fiscal 2000)	Tax Year 2000 (Fiscal 2001)
Net Proceeds (Class 1)	7,625,083	0.0%	7,625,083	7,625,083
Gross Proceeds (Class 2)	8,780,907	0.0%	8,780,907	8,780,907
Agricultural Land (Class 3)	143,007,340	-0.4%	142,435,311	141,865,569
Res./Comm. Real Prop. (Class 4)	952,059,326	3.4%	984,429,343	1,017,899,941
Rural Co-Op/Poll. Cont. (Class 5)	34,068,494	0.0%	34,068,494	34,068,494
Livestock (Class 6)	23,833,179	0.0%	23,833,179	23,833,179
Independent Telephone (Class 7)	1,783,935	0.0%	1,783,935	1,783,935
Business Personal Prop. (Class 8)	203,383,267	3.4%	210,298,298	217,448,440
Utilities (Class 9)	494,534,742	1.9%	503,930,902	513,505,589
Timberland (Class 10)	7,677,880	0.0%	7,677,880	7,677,880
Airlines/Railroads (Class 12)	65,266,087	2.5%	66,897,739	68,570,183
Statewide Total Taxable Value	1,942,020,240	2.6%	1,991,761,071	2,043,059,200

The combined result of the individual trends is an overall increase of 2.6% in taxable value for each forecast year. This overall increase in taxable value is used to forecast the total taxable value of the five technology school counties and the taxable value in tax increment finance districts.

Property Tax Mill Levy Revenue - 95 Mill Levy

The 95 mill levy is a statewide mill levy. However, it cannot be applied directly to the statewide taxable values in Table 8. Three adjustments must be made to the statewide taxable values before applying the 95 mills. The three adjustments account for taxable value impacts due to: tax increment finance districts, local abated property, and utility deregulation. After accounting for these impacts, the 95 mill levy can be applied. Then one more adjustment must be made for the SB417 personal property tax reimbursements.

Adjustment 1 - Property in Tax Increment Finance Districts (TIF)

The statewide values in Table 8 include the incremental taxable value of property in TIFs. The taxable value of this property must be subtracted from the statewide total. The state does not realize the property tax revenue generated by the 95 mill levy when applied to the taxable value of a TIF. Instead, that revenue goes to the TIF district. There are currently 15 TIFs in the state. The taxable value of all the TIFs in tax year 1998 is yet unavailable. However, it is known that there will be a $17,864,833 increase in the 1998 taxable valuation of TIFs due to the completion of construction of a high-tech plant in the Ramsey TIF in Silver Bow County. The valuation of this plant is added to the 1997 valuation to produce an estimate of the 1998 valuation of TIFs. This estimate is shown in Table 9.

Table 9

Estimated Property Tax Revenue Loss Due to TIFs - Tax Year 1998

		Estimated Property Tax Revenue Loss - Tax Year 1998					
County	Taxable Value	State *	County	Local Schools	Cities/ Towns	Misc	Total
Cascade	4,409,334	465,185	338,637	773,662	391,505	0	1,962,374
Cascade	16,070	1,695	1,234	2,820	1,427	0	7,152
Flathead	3,894,447	405,022	169,759	805,956	452,379	141,329	1,974,446
Flathead	8,305	864	362	1,719	965	301	4,211
Flathead	3,104,341	322,851	135,318	454,196	273,958	28,156	1,214,480
Gallatin	1,986,359	188,704	111,951	351,367	268,735	0	920,757
Lewis & Clark	3,177,386	335,214	171,070	791,010	260,673	0	1,553,202
Lewis & Clark	828,523	87,409	44,608	206,261	67,972	0	405,007
Missoula	3,700,696	390,423	279,736	868,849	509,290	36,341	2,079,088
Missoula	137,858	14,544	10,421	28,479	0	10,803	64,039
Missoula	60,496	6,382	4,573	11,881	8,325	594	31,665
Silver Bow	2,273,780	239,884	262,053	545,662	0	264,190	1,308,378
Silver Bow	116,342	12,274	13,408	27,920	0	13,518	66,946
Silver Bow	17,864,833	1,884,740	2,058,922	3,915,971	0	1,482,960	9,315,796
Yellowstone	6,472,033	624,551	379,520	1,311,881	576,011	12,944	2,895,199
TOTAL	48,050,803	4,979,744	3,981,572	10,097,633	2,811,239	1,991,137	23,802,739

* Includes: 9 mills state assumption of welfare except Yellowstone and Gallatin, 95 mills state equalization, and 1.5 mill for Cascade, Lewis and Clark, Missoula, Silver Bow, and Yellowstone Counties.

The taxable value for tax year 1998 (fiscal 1999) can be trended forward to project the valuation of TIFs for fiscal years 2000 and 2001. The growth rate applied to the taxable values is 2.6%, the estimated growth rate for the statewide total taxable value. Table 10 lists the projected taxable value for TIFs.

Table 10
Estimated Value of TIFs

Tax Year	Fiscal Year	Taxable Value
1998	1999	48,050,803
1999	2000	49,300,124
2000	2001	50,581,927

Adjustment 2 - Abated Property

Another adjustment that must be made is for property that is subject to a local abatement of valuation. Under Montana law, local governments have authority to reduce the taxable value of property subject to local mill levies. For example, the business equipment for a qualified new business may be subject to a taxable rate of 3% instead of 6%. However, this abatement does not apply to statewide mill levies such as the 95 mill levy. That is to say that the local property tax liability will be calculated at the lower, abated taxable rate, but the state property tax liability from the 95 mill levy will be calculated with the normal taxable rate.

The statewide total taxable values calculated in Table 8 include only the reduced taxable value of property subject to a local abatement. The abated taxable value of this property is the taxable value of the property exempt from local mills but not exempt from statewide mills. This abated taxable value must be added to the statewide total. Table 11 lists the value of abated property from tax year 1994 to tax year 1998.

Table 11
Taxable Value of Abated Property

	Taxable Value
Tax Year 1994	11,859,508
Tax Year 1995	13,014,990
Tax Year 1996	13,297,604
Tax Year 1997	10,571,010
Tax Year 1998	9,071,380

There does not appear to be any discernable trend in the values listed in Table 11. For estimating purposes, the value of the abated property in future years will be held constant at the tax year 1998 level of $9,071,380.

Adjustment 3 - Anticipated Impact of Utility Deregulation Activity

Another factor impacting taxable valuation are pending sales of utility property. The sale of this property could result in the reclassification of the property. Under current law, utility property is class 9 property with a taxable rate of 12%. If sold, the property could be reclassified as commercial property or as co-op property, depending on the purchaser. In either case, the property would be subject to a reduced taxable rate, resulting in a reduction in taxable value.

Three potential sales of utility property are considered in this analysis. Estimating the potential impact to taxable value of the sale of utility property is a difficult task. Factors such as sale price, statutes defining centrally assessed property and co-op property, valuation methodologies, and other factors complicate the issue. For the purposes of this analysis a worst case scenario will be assumed. It is assumed that the sale of utility property will result in the property being re-classified into the class with the lowest taxable rate.

The sale of Montana Power Gas property has already occurred. After the sale, the Department of Revenue did not re-classify the property to a class with a lower taxable rate. This decision to not re-classify is currently under appeal. This analysis assumes that the property will be re-classified, resulting in a reduction in taxable value of $5,237,185 for tax year 1998 and succeeding tax years.

As of October 1998, the sale of Montana Power electricity-generating property is still in the negotiation process. For this analysis it is assumed that the sale will be finalized in calendar year 1999. This means that the impact to taxable value will not occur until tax year 2000. Which in turn means that the sale will first impact property tax in fiscal 2001. It is estimated that the sale will result in a taxable value reduction of $34,160,337.

The third potential sale is the property of Pacific Power and Light to Flathead Electric Co-op. It is assumed this pending sale will be finalized in calendar year 1999 with the first property tax impact in fiscal 2001. Under a worst case scenario, it is estimated that this sale will reduce taxable value by $4,350,000. The estimated impacts of these sales are summarized in Table 12.

Table 12

Estimated Change in Taxable Value Due to the Sale of Utility Property

	FY 1999	FY 2000	FY 2001
MPC Gas	5,237,185	5,237,185	5,237,185
MPC Electrical	0	0	34,160,337
PPL	0	0	4,830,000
Statewide	**5,237,185**	**5,237,185**	**44,227,522**

Adjustment 4 - SB417 Reimbursement Payments

The 1995 Legislature passed SB417 reducing the taxable rate applied to class eight property (business equipment) form 9% to 6% over a three-year period with the first tax year being 1996. The taxable rate is 6% for tax year 1998 and each year after. The law includes a reimbursement mechanism to compensate local governments for the loss of property tax revenue associated with the taxable rate reduction. The reimbursement payments are funded by the 95 mill levy property tax revenue. Hence, to determine the property tax mill levy revenue the total value of the reimbursements must be subtracted from the estimated property tax revenue produced by the 95 mill levy.

Due to the nature of the reimbursement mechanism this procedure is straight forward. The reimbursement amounts for fiscal years beginning and after fiscal 1999 are known. The reimbursement amounts calculated for fiscal 1999 will be fixed to form the basis for reimbursements for fiscal 2000 through fiscal 2008 (the final year of SB417 reimbursements). Beginning with fiscal 2000, the reimbursements will be phased out at 10% each year. The reimbursement for fiscal 2000 will be 90% of the reimbursement in fiscal 1999. The reimbursement for fiscal 2001 will be 80% of the reimbursement in fiscal 1999, and so on until the last reimbursement in fiscal 2008. The schedule for SB417 reimbursements is listed in Table 13.

Table 13
Amount of SB417 Reimbursement

Fiscal Year	Amount
1996	2,263,486
1997	7,881,301
1998	12,201,128
1999	14,125,466
2000	12,712,919
2001	11,300,373
2002	9,887,826
2003	8,475,280
2004	7,062,733
2005	5,650,186
2006	4,237,640
2007	2,825,093
2008	1,412,547
2009	0

Projection - Property Tax Mill Levy Revenue - 95 Mill Levy

Given the adjustments, the property tax mill levy revenue generated by the 95 mill levy can be calculated. As shown in Table 14, the statewide taxable values are adjusted for TIFs, abated property, and the sale of utility property. The 95 mill levy is applied to the adjusted taxable values and SB417 reimbursements are deducted.

Table 14
Property Tax 95 Mill Levy General Fund Revenue

	FY1999	FY2000	FY2001
Unadjusted Statewide Taxable Value	$ 1,942,020,240	$ 1,991,761,071	$ 2,043,059,200
Adjutment for TIF Valuations	(48,050,803)	(49,300,124)	(50,581,927)
Adjustment for Abated Property	9,071,380	9,071,380	9,071,380
Adjustment for Utility Sales	(5,237,185)	(5,237,185)	(44,227,522)
Subtotal	**$ 1,897,803,632**	**$ 1,946,295,142**	**$ 1,957,321,131**
Apply the 95 Mill Levy	x .095	x .095	x .095
Subtotal	**$ 180,291,345**	**$ 184,898,039**	**$ 185,945,507**
Less SB 417 Reimbursements	(14,125,466)	(12,712,919)	(11,300,373)
95 Mill Levy Revenue	**$ 166,165,879**	**$ 172,185,119**	**$ 174,645,135**

Property Tax Mill Levy Revenue - 1.5 Mill Levy

The 1.5 mill levy is levied on property in the five counties where colleges of technology reside (Silver Bow, Cascade, Yellowstone, Missoula, and Lewis and Clark Counties). The methodology used (similar to that used for the 95 mill levy) is to estimate the taxable value of the five 1.5 mill levy counties and then make adjustments for the taxable value of TIF property, the value of abated property, and the impact of the sale of utility property. It is not necessary to make an adjustment for SB417 reimbursements because the total SB417 reimbursement was deducted from the 95 mill levy revenue. The tax year 1998 values of the five 1.5 mill levy counties are projected forward by 2.6% (the estimated increase in total statewide taxable valuation), as shown in Table 15.

Table 15
Projected Taxable Value for the 1.5 Mill Levy

	--- Actual ---		------------- Projected	------------
County	Tax Year 1998 (Fiscal 1999)	Trend Factor	Tax Year 1999 (Fiscal 2000)	Tax Year 2000 (Fiscal 2001)
Cascade	$ 117,753,840	2.6%	$ 120,815,440	$ 123,956,641
Lewis and Clark	88,500,050	2.6%	90,801,051	93,161,879
Missoula	155,406,493	2.6%	159,447,062	163,592,685
Silver Bow	72,201,905	2.6%	74,079,155	76,005,213
Yellowstone	230,965,865	2.6%	236,970,977	243,132,223
Total Taxable Value	$ 664,828,153		$ 682,113,685	$ 699,848,641

Adjustment 1 - Property Tax Increment Finance District (TIF) - 1.5 Mill Levy

The estimated valuation of the TIF districts in the five counties for tax year 1998 (fiscal 1999) is $38,919,630. This value will be used as the estimate of the TIF valuation for fiscal years 2000 and 2001. The fiscal 1999 estimate will be increased by 2.6% each year. Table 16 lists the estimated TIF value for the five 1.5 mill levy counties.

Table 16
Estimated Value of TIFs
1.5 Mill Levy Counties

Tax Year	Fiscal Year	Taxable Value
1998	1999	38,919,630
1999	2000	39,931,540
2000	2001	40,969,760

Adjustment 2 - Abated Property - 1.5 Mill Levy

In tax year 1998, the taxable value of abated property in the five 1.5 mill levy counties is $5,869,309. The annual change in the value of this property has no distinct trend. The tax year 1998 taxable value is held constant and used as the estimate for the taxable value of abated property in the five 1.5 mill levy counties.

Table 17
Estimated Value of Abated Property
1.5 Mill Levy Counties

Tax Year	Fiscal Year	Taxable Value
1998	1999	5,869,309
1999	2000	5,869,309
2000	2001	5,869,309

Adjustment 3 - Anticipated Impact of Utility Deregulation Activity - 1.5 Mill Levy

The taxable value of the five 1.5 mill levy counties is impacted by the sale of the Montana Power Company assets. The estimated impact to the total taxable value of the five 1.5 mill levy counties is shown in Table 18.

Table 18
Estimated Change in Taxable Value
Sale of Utility Property
Five 1.5 Mill Levy Counties

	FY 1999	FY 2000	FY 2001
Total	**2,732**	**2,732**	**7,101,881**

Projection - Property Tax Mill Levy Revenue - 1.5 Mill Levy

Given the adjustments, we can now calculate the property tax mill revenue generated by the 1.5 mill levy. The first step is to adjust the total taxable value of the five 1.5 mill levy counties for TIFs, abated property, and the sale of utility property. The next step is to apply the 1.5 mill levy to the adjusted taxable values. These calculations are shown in Table 19.

Table 19
Property Tax 1.5 Mill Levy General Fund Revenue

Calculation	FY 1999	FY 2000	FY 2001
Unadjusted Statewide Taxable Value	$ 664,828,153	$ 682,113,685	$ 699,848,641
Adjustment for TIF Valuations	(38,919,630)	(39,931,540)	(40,969,760)
Adjustment for Abated Property	5,869,309	5,869,309	5,869,309
Adjustment for Utility Sales	(2,732)	(2,732)	(7,101,881)
Subtotal	**$ 631,775,100**	**$ 648,048,722**	**$ 657,646,308**
Apply the 1.5 Mill Levy	x .0015	x .0015	x .0015
1.5 Mill Levy Revenue	**$ 947,663**	**$ 972,073**	**$ 986,469**

Projection - General Fund Property Tax Mill Levy Revenue

Table 20 combines the property tax mill levy from the 95 mill levy and from the 1.5 mill levy. This is the property tax mill levy revenue portion of the total General Fund property tax revenue estimate.

Table 20
Property Tax Mill Levy Revenue Estimate

Source	FY 1999	FY 2000	FY 2001
95 Mill Levy	$ 166,165,879	$ 172,185,119	$ 174,645,135
1.5 Mill Levy	947,663	972,073	986,469
Total General Fund Property Tax Mill Levy Revenue Est.	**$ 167,113,542**	**$ 173,157,192**	**$ 175,631,604**

The property tax mill levy revenue estimate will be combined with the non-levy revenue estimate to produce the total property tax General Fund revenue estimate. The non-levy revenue estimate is described in the next section.

Forecast Methodology and Projection Calculation – Non-Levy Revenue

Besides property tax mill levy revenue there are other sources of revenue deposited into the 95 mill levy and the 1.5 mill levy accounts. By law non-levy revenue may be allocated to all the state mills or limited to specific mill levels. Examples of non-levy revenue are vehicle taxes, oil and gas production taxes, and federal forest reserve payments. These types of revenues are called non-levy revenues. When combined, the non-levy revenue sources contribute over $37 million to the 95 mill levy account. The non-levy revenue sources are categorized and listed below. The revenue estimate for each category will be calculated separately and the mill levies applied to each non-levy revenue will be identified.

1. Light Vehicle Tax
2. Large Truck Tax
3. Coal Gross Proceeds
4. Oil and Gas Production Tax
5. State Corporation License Tax (Financial Institutions)
6. Federal Forest Reserves
7. All Other

1. Light Vehicle Tax

This category is comprised of taxes paid on light vehicles. Light vehicles are the privately owned vehicles subject to the 2% ad valorem tax. The 1987 legislature removed light vehicles from the property tax mill levy system. The historical data from this source can be analyzed and trended to formulate a revenue estimate.

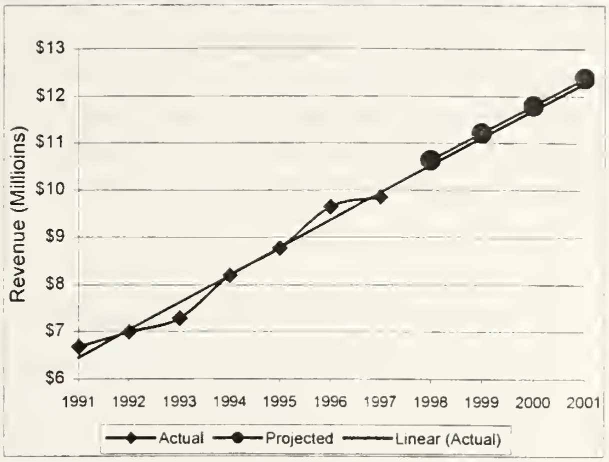
Revenue from light vehicles has been steady for the past few years. Table 21 shows the revenue from light vehicles deposited to the 55 mill levy account from 1991 to 1997. This series of data points is trended forward to produce an estimate for fiscal years 1999, 2000, and 2001.

Table 21 shows that a regression line does a good job of indicating what actual revenue levels are from year to year. The regression has an R-squared of 0.9741. Because an R-squared of 1.0 would suggest a perfect functional relationship between fiscal year and revenue, the R-squared of 0.9741 found here indicates that this regression produces a very good fit. In other words there is a very strong and therefore predictable relationship between fiscal year and non-levy revenue from light vehicle tax.

The t-value is another measure of the strength of the relationship between revenue and time. A t-value of 3.000 or less would indicate that there would be little change in revenue over time. The regression output shows a t-value of 13.72233. This indicates that the rate of revenue does change with time. Revenue is increasing at the rate of $0.5827 million per year.

Table 21
55 Mill Levy Account
Non- Levy Revenue From Light Vehicle Tax

Fiscal Year	Revenue 55 Mill Account
A 1991	$ 6.674
A 1992	$ 6.989
A 1993	$ 7.278
A 1994	$ 8.196
A 1995	$ 8.776
A 1996	$ 9.640
A 1997	$ 9.846
F 1998	**$10.555**
F 1999	**$11.137**
F 2000	**$11.720**
F 2001	**$12.303**



The revenue projections for the 55 mills is prorated to reflect revenue for the 95 mills. The revenue estimate for the 1.5 mill levy will also be prorated from the estimate for the 55 mill levy. There will need to be an additional adjustment to reflect the fact that the 1.5 mill levy is levied in only five counties where the 55 mill levy is levied statewide. The adjustment will be to multiply the prorated 1.5 mill levy revenue estimate by the proportion the taxable value of the five counties is to the total statewide taxable value.

Table 22 shows the fiscal 1998, 1999, 2000, and 2001 revenue estimates for the 55 mill levy, the 95 mill levy, the 1.5 mill levy, and the total non-levy light vehicle revenue estimate. Fiscal 1998 revenue is unavailable at the time of this report.

Table 22
Light Vehicle Non-Levy Revenue Estimate

		----------------- Estimated Revenue				--------------------
Fiscal Year	Base 55 Mill Levy	95 Mills	+	1.5 Mills	=	Total
1998	10,554,680	18,230,811		98,446		18,329,257
1999	11,137,340	19,237,224		103,881		19,341,105
2000	11,720,000	20,243,636		109,316		20,352,952
2001	12,302,660	21,250,049		114,750		21,364,799

2. Large Truck Tax

This category is comprised of taxes paid by large trucks and trailers. The 1997 legislature removed large trucks and trailers from the property tax system. Fiscal 1998 is the first year revenue from this source will be non-levy revenue. Going from the property tax system to the current law fee system was intended to be revenue neutral at the fully reduced taxable rate of 6%. The revenue estimate for large trucks and trailers will be based on property tax revenue paid by large trucks and trailers on 95 mills in tax year 1997 adjusted to a 6% taxable rate. This amount is calculated by multiplying the taxable value of this property times 95 mills. This calculation is shown in Table 23.

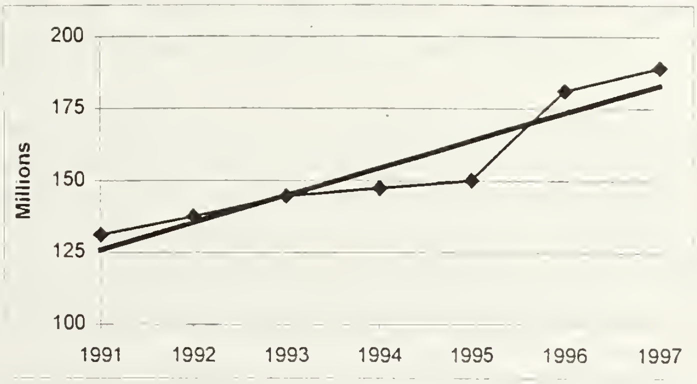
Table 23
Property Taxes Paid by Large Trucks and Trailers on 95 Mills
Tax Year 1997 (Fiscal Year 1998)

Tax Year 1997 Assessed Value	$189,080,943
Taxable Rate	6.0%
Taxable Value	$ 11,344,857
95 Mills	x 0.095
Estimated Property Taxes Paid	$ 1,077,761

The next step in the revenue estimate is to estimate the growth of this property. The growth rate of the revenue should match the growth rate of the assessed value of large trucks and trailers. The assessed value of large trucks and trailers for tax years 1991 to 1997 is listed in Table 24. A linear regression was applied to this data to provide an estimate of the growth rate of assessed value.

Table 24
Assessed Value of Large Trucks and Trailers

Tax Year	Assessed Value
1991	$ 131.067
1992	$ 137.426
1993	$ 144.606
1994	$ 147.325
1995	$ 150.003
1996	$ 181.028
1997	$ 189.081



As seen in the graph, the assessed value appears to be increasing at a steady rate. This is evidenced by a high R-squared value of 0.8727. Such a large R-squared value indicates a very good linear correlation between the assessed value and the tax year. The value is projected to increase each year.

The property tax revenue for tax year 1997 represents fiscal 1998 revenues. A 5.03% growth rate will be applied to fiscal year 1998 revenues and to succeeding fiscal years. Calculating the revenue estimate from this source for the 1.5 mill levy will follow the same methodology as used with light vehicles. The resulting revenue estimates are shown in Table 25.

Table 25
Estimated Non-Levy Revenue from Large Trucks and Trailers

Fiscal Year	Estimated Revenue 95 Mills	+	1.5 Mills	=	Total
1998	1,077,761		5,820		1,083,581
1999	1,131,972		6,113		1,138,085
2000	1,188,911		6,420		1,195,331
2001	1,248,713		6,743		1,255,456

3. Coal Gross Proceeds

Generally, non-levy revenue is distributed to taxing jurisdictions in which the revenue is collected. The share of the non-levy revenue for a taxing jurisdiction is based on the number of mills levied by that taxing jurisdiction in relation to the total number of mills levied by all affected taxing jurisdictions. For example, if the total mill levy in a taxing jurisdiction was 350 mills, then the 55 mill levy account would receive 15.7% (55/350) of the non-levy revenue and the 40 mill levy account would receive 11.4% (40/350) of the non-levy revenue.

Coal gross proceeds are distributed as described above with one significant difference. In calculating the distribution of coal gross proceeds, the mills are fixed at tax year 1989 mill levy levels. This is significant since in 1989 the statewide mill levy for equalization was 45 mills compared to the current 95 mills.

Since there are only a few active coal mines in the state, the non-levy revenue from coal gross proceeds is calculated for each mine. Based on the estimated total coal gross proceeds (calculated under the coal severance tax revenue estimate) and tax year 1989 mill levies, the non-levy revenue from coal gross proceeds can be calculated. Table 26 shows the estimated coal gross proceeds to be distributed to local governments and the 45 mill allocation for the General Fund.

Table 26
Coal Gross Proceeds Tax
Distributed on the Basis of Mill Levies

Fiscal Year	Total	45 Mills
1999	$11,738,012	$5,182,977
2000	$10,933,649	$4,579,080
2001	$10,225,780	$4,684,466

None of the counties with a coal mine is a technology school county, so the 1.5 mill levy does not receive any coal gross proceeds non-levy revenue.

4. Oil and Gas Production Tax

Oil and gas production is classified as either pre-85 production or post-85 production. If the well was drilled prior to July 1, 1985, the production is considered pre-85. If the production is from a well drilled on or after July 1, 1985, the production is considered post-85 production. This is an important distinction because it determines the calculation of the distribution of oil and gas production non-levy revenue. Pre-85 production non-levy revenue is distributed under the same methodology as coal gross proceeds where the mill levies used are the tax year 1989 mill levies. Post-85 production non-levy revenue is distributed based on current mill levies.

In calculating the non-levy revenue of coal gross proceeds, it was possible to compute the non-levy revenue from each individual coal mine because there are only a few coal mines. The luxury of such a small number does not exist with oil and gas production. Since the total mill levies of the jurisdictions where each individual oil and gas well resides is not known, a statewide average mill levy is used in computing the share of non-levy revenue.

For pre-85 production the statewide average mill levy used is 197.83 mills. This average mill levy is the average mill levy applied to oil and gas net proceeds in tax year 1989, the last tax year that oil and gas net proceeds were subject to a property tax mill levy. The state share of pre-85 oil and gas production tax is 22.75% (45/197.83).

A similar statewide average mill levy for post-85 production is needed. But because mills are no longer applied to the net proceeds of oil and gas, a statewide average mill levy applied to oil and gas net proceeds does not exist for tax year 1998. As a substitute, the average mill levy applied to oil and gas field equipment will be

used. It is assumed that the average mill levy applied to oil and gas field equipment closely reflects the average mill levy of taxing jurisdictions with oil and gas wells. This assumption is supported by examining the statewide average mill levies for the net proceeds of oil and gas and for oil and gas field equipment. The comparison from tax years 1986 to 1989 is shown in Table 27. The oil and gas net proceeds mill levies are almost identical to the oil and gas field equipment mill levies. The statewide average mill levy for this equipment was 336.59 mills in tax year 1997, the latest year available. The state share of post-85 oil and gas production tax is 28.22% (95/336.59).

Table 27
Average Mill Levy of Oil and Gas Net Proceeds and Field Equipment

Tax Yea	Oil and Gas Net Proceeds	Oil and Gas Field Equipment
1986	143.31	145.85
1987	171.29	173.26
1988	158.94	158.57
1989	197.83	200.58
	---Estimated---	
1997	336.59	336.59

Given the estimated state share of oil and gas production tax, the revenue estimate is completed by multiplying the estimated production tax for pre-85 and post-85 oil and gas production by the appropriate state share. These calculations are shown in Table 28.

Table 28
Estimated General Fund Non-Levy Revenue From Oil and Gas Production Taxes

Production Type	FY 1999	FY 2000	FY 2001
Pre-85 Estimated Total Tax	$ 22,588,378	$ 24,031,175	$ 24,968,667
State % Share of Pre-85 Tax	22.75%	22.75%	22.75%
State Share of Pre-85 Tax	**$ 5,138,856**	**$ 5,467,092**	**$ 5,680,372**
Post-85 Estimated Total Tax	$ 7,318,635	$ 7,786,101	$ 8,089,848
State % Share of Post-85 Tax	28.22%	28.22%	28.22%
State Share of Post-85 Tax	**$ 2,065,319**	**$ 2,197,238**	**$ 2,282,955**
Total General Fund Non-Levy **Oil and Gas Production Tax**	**$ 7,204,175**	**$ 7,664,330**	**$ 7,963,327**

5. Corporate License Tax

The majority of Corporation License Tax collections are deposited in the General Fund. However, revenues received from financial institutions (banks, etc.) are distributed 20% to the state and 80% to the local governments in the area which the bank is located. The local government revenues are distributed to the taxing jurisdictions which levy mills in the area.

Ultimately, part of this local distribution is returned to the state General Fund as non-levy revenue for the 55 and 1.5 mill levy accounts. However, current practice among county treasurers suggests a great deal of confusion regarding distributing corporation tax non-levy revenue to the state. A recent informal survey of county treasure offices indicates that some counties do not distribute to these statewide mill levy accounts.

The Department of Revenue will work with the Department of Commerce to ensure consistent and accurate distribution of corporation tax non-levy revenues in the future. For the purposes of this revenue estimate, it is assumed that this non-levy revenue source will be distributed to the state 55 and 1.5 mill levy accounts.

The non-levy revenue estimate for the 55 mills is done by taking the percent of the financial institution corporate license tax distributed to the counties (80%) times the portion the 55 mills are of the average statewide mill levy.

The statewide mill levy average calculation is shown in Table 29. This average mill levy used is 361.17 mills. This was determined by taking the fiscal 1998 taxes paid, excluding the road fund, and dividing by the total statewide taxable value. This calculation is shown in Table 29. The road fund is excluded from the county total because property within a city/town is not subject to the county road mill levy. It is assumed that most financial institutions are located within a city/town.

Table 29
Calculation of Average Mill Levy
for Financial Institutions Distributions

Purpose	Property Taxes (FY 1998)
State	$ 200,431,594
County	140,217,426
Road Fund	(18,828,219)
Local Schools	312,295,767
Cities/Towns	57,629,854
Total	$ 691,746,422
	divided by
State Tax Value	$ 1,915,280,283
Mill value	x 1000
Average Mill Levy:	*361.17*

The statewide average mill levy used for the distribution is 361.17 mills. The 55 mill levy account share of the financial institutions corporation tax non-levy revenue is 15.2% (55/361.17). This percent is applied to the revenue estimates for this non-levy revenue source. As shown in Table 30.

Table 30
Estimated Non-Levy Revenue from Financial Institution Corporation Tax
55 and 1.5 Mill Levy Accounts

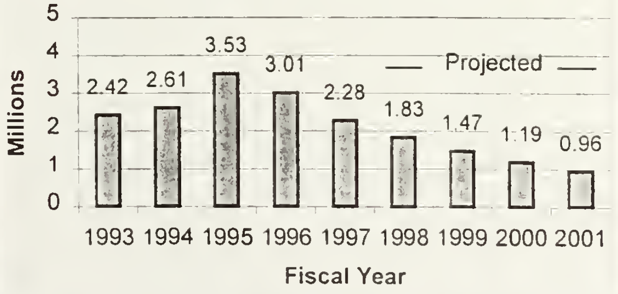
	FY 1999	FY 2000	FY 2001
Amount Available for Distribution	$ 9,119,338	$ 8,891,528	$ 8,802,647
State Share	15.2%	15.2%	15.2%
55.0 Mill Levy Share of Revenue	$ 1,386,139	$ 1,351,512	$ 1,338,002
1.5 Mill Levy Share of Revenue	7,485	7,298	7,225
General Fund Allocation	$ 1,393,625	$ 1,358,810	$ 1,345,228

The 1.5 mill levy account also receives revenue from this non-levy revenue source. The method applied to estimate the 1.5 mill levy share used in previous sections will be employed here. First, the 55 mill levy share will be prorated to reflect 1.5 mills. Then, this prorated value will adjust for the fact that the 1.5 mill levy is levied in five counties only.

6. Federal Forest Reserves

Federal Forest Reserves are paid into the 55 mill levy account. Table 29 shows revenue from Federal Forest Reserves for the last five years. Revenue reached a peak in fiscal 1995 and has declined since. This decline is expected to continue for the next few years. The rate of decline was 14.6% from fiscal 1995 to 1996 and 24.5% from fiscal 1996 to 1997. This is an average decline of 19.5%. For the purposes of estimating non-levy revenue from Federal Forest Reserves, this average rate of decline will be applied to fiscal 1997 revenues, the latest data available. The revenue from Federal Forest Reserves for the fiscal years 1993 to 1997 and projected revenue is shown in Table 31.

Table 31
Federal Forest Reserves



7. All Other Non-Levy Revenue

The category, all other non-levy revenue, consists of a multitude of revenue sources such as: Federal Taylor Grazing payments, Federal Bankhead Jones payments, out of state custom combine taxes, district court fines, and BLM grazing payments. The average total state share of revenue from these sources from fiscal 1993 to 1997 was $1,800,000. This value will be held constant and used as an estimate of revenue from these sources for fiscal years 1999, 2000, and 2001.

Summary – Non-Levy and Property Tax Revenue

Table 32 summarizes and totals the General Fund non-levy revenue and property tax.

Table 32
Summary of Property Tax and Non-Levy Revenue

Revenue Source:	FY 1999	FY 2000	FY 2001
Non-Levy Revenue:			
Light Vehicles	$ 19,341,105	$ 20,352,952	$ 21,364,799
Large Trucks	1,138,085	1,195,331	1,255,456
Coal Proceeds Tax	5,182,977	4,579,080	4,684,466
Oil and Gas Production	7,204,175	7,664,330	7,963,327
Financial Institutions	1,393,625	1,358,810	1,345,228
All Other	3,270,000	2,990,000	2,760,000
Sub Total - Non-Levy	**$ 37,529,967**	**$ 38,140,503**	**$ 39,373,276**
Property Tax	167,113,542	173,157,192	175,631,604
Total	**$ 204,643,509**	**$ 211,297,695**	**$ 215,004,880**

RAIL CAR TAX

General Fund Revenue Estimate

Revenue Description

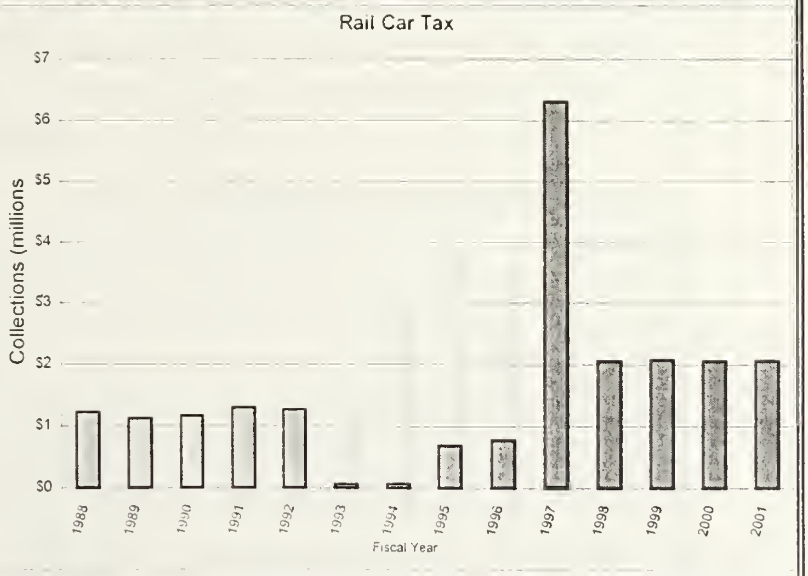
Section 15-23-101, MCA, provides for the central assessment of rail car companies' operating properties. The rail car tax is a tax assessed on the rolling stock of freight line companies. This property is classified as class 12 property (railroad and airlines). Section 15-23-214, MCA, states that the tax shall be computed by multiplying the taxable value of the property by the average statewide mill levy for commercial and industrial property. The General Fund receives 100% of the rail car tax revenue.

Historical and Projected Revenue

Table 1 shows the historical and projected General Fund revenue for the rail car tax. Rail car companies were moved from a gross receipts tax to an ad valorem tax by the July 1992 special session of the Montana Legislature. The large increase in General Fund collections in fiscal 1997 is due to a settlement agreement reached with a group of rail car companies which brought in revenues due from prior years. Rail car tax collections are expected to rise 0.91% in fiscal 1999; drop 1% in fiscal 2000; and rise only 0.20% in fiscal 2001.

Table 1
Rail Car Tax
General Fund Revenue
(millions)

	Fiscal Year	General Fund	Percent Change
A	1988	$1.230	NA
A	1989	$1.126	-8.45%
A	1990	$1.166	3.60%
A	1991	$1.298	11.27%
A	1992	$1.272	-1.98%
A	1993	$0.060	-95.29%
A	1994	$0.067	11.01%
A	1995	$0.692	940.10%
A	1996	$0.780	12.74%
A	1997	$6.309	708.72%
A	1998	$2.054	-67.44%
F	**1999**	**$2.073**	**0.91%**
F	**2000**	**$2.052**	**-1.00%**
F	**2001**	**$2.056**	**0.20%**



Forecast Methodology and Projected Calculation

Calculation of tax liability is a three-step process. The first step is to project the Montana market value of rail car companies. The second step is to calculate the taxable value by applying the class 12 taxable rate to the Montana market value. The third step is to apply 95% of the statewide average mill levy for commercial and industrial property to the taxable value. The variables to be used in estimating rail car tax revenues are 1) Montana allocated value, 2) class 12 taxable rate (railroads and airlines), and 3) statewide average mill levy for commercial and industrial property.

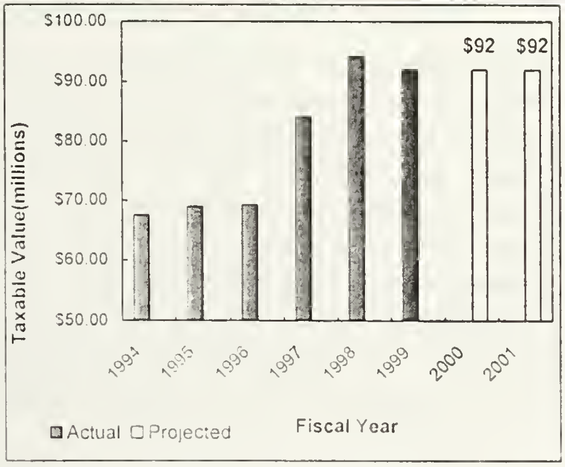
Montana Market Value

The first step to estimate total rail car tax revenues for fiscal years 1999 to 2001, is to estimate the Montana market value for the rail car companies. Conversations regarding rail car activity and fleet value were conducted with business experts in the Compliance, Valuation and Resolution Process of the Department of Revenue; the property tax representative of Burlington Northern Santa Fe Railroad (BNSF); and the property tax representative of TTX Railcar Company. Utility appraisers within the Compliance, Valuation and Resolution Process appraises the fleet value of rail car companies for property tax purposes. BNSF Railroad hauls two-thirds of all rail car activity in Montana. TTX Railcar Company pays approximately one-quarter of all rail car tax revenues in Montana.

The information provided by these business experts indicates that activity in Montana is likely to remain stable in fiscal years 1999, 2000 and 2001. Fiscal 1999 total Montana allocated value for all rail car companies is already known to be $91,984,717. The January 1, 1998 market value is used for determining fiscal 1999 property tax. Based on all information gathered, a total Montana allocated value for all rail car companies of $92,000,000 is projected for fiscal years 2000 and 2001. Table 2 shows actual fiscal year 1994 to 1999 and projected fiscal years 2000 and 2001 total Montana allocated values for all rail car companies.

Table 2
Total Montana Allocated Value for all Rail Car Companies
(millions)

Fiscal Year	MT Allocated Value	Percent Change
A 1994	$67.581	NA
A 1995	$69.080	2.22%
A 1996	$69.296	0.31%
A 1997	$84.190	21.49%
A 1998	$94.220	11.91%
A 1999	$91.985	-2.37%
-----Projected------		
F 2000	$92.000	0.02%
F 2001	$92.000	0.00%

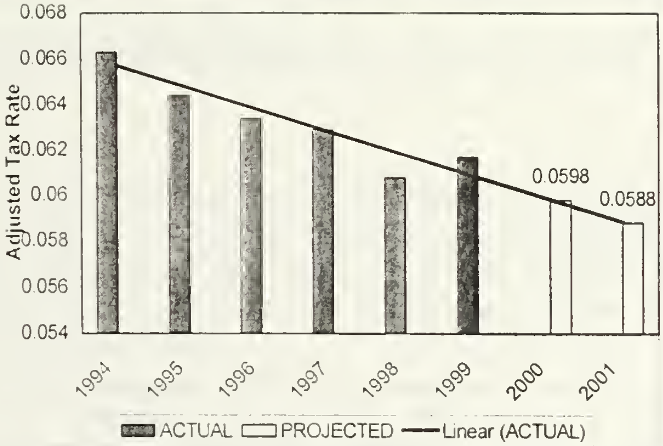


Class 12 Taxable Rate

The second step in calculating the rail car tax liability is to calculate the taxable value by applying the class 12 taxable rate to the Montana market value. The class 12 taxable rate and the statewide average mill levy for commercial and industrial property are estimated by time trending methods. The adjusted class 12 tax rate regression results are presented in Table 3. The class 12 tax rate was first adjusted in order to eliminate the influence of the decrease from 9% to 6% in class 8 property for fiscal years 1994 to 1997. Table 3 displays a regression analysis performed on adjusted fiscal years 1994 to 1999 data, projecting future class 12 tax rates for fiscal years 2000 and 2001. The regression has an R-squared of 0.8765. An R-squared of 1.0 would suggest a perfect functional relationship between fiscal year and tax rate. The R-squared of 0.8765 for this regression indicates a fairly predictable relationship between fiscal year and tax rate. The class 12 tax rate is projected to be 5.98% for fiscal 2000 and 5.88% for fiscal 2001.

Table 3
Adjusted Class 12 Tax Rate
Regression Results

Fiscal Year	Adjusted Class 12 Tax Rate	Percent Change
A 1994	6.63%	NA
A 1995	6.44%	-2.87%
A 1996	6.34%	-1.55%
A 1997	6.29%	-0.79%
A 1998	6.08%	-3.34%
A 1999	6.17%	1.48%
	——Projected——	
F 2000	5.98%	-3.08%
F 2001	5.88%	-1.67%



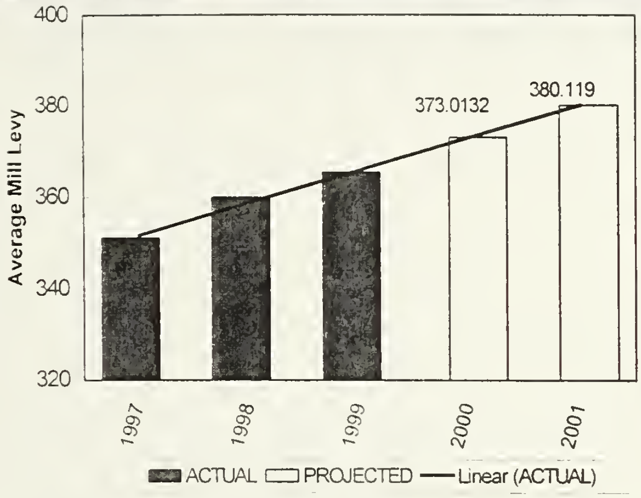
Average Statewide Mill Levy for Commercial and Industrial Property

The third step in calculating the rail car tax liability is to apply 95% of the statewide average mill levy for commercial and industrial property to the taxable value. Section 15-23-211, MCA, stipulates this definition of the "average levy". Table 4 displays regression results based on 1997 to 1999 data, projecting the future average statewide mill levy for commercial and industrial property for fiscal years 2000 and 2001. The 1997 to 1999 data reflect a current trend toward smaller increases in mill levies from one year to the next. The regression has an R-squared of 0.9812. An R-squared of 1.0 would suggest a perfect functional relationship between fiscal year and average statewide levy. The R-squared of 0.9812 for this regression indicates a good fit. This good fit supports a

predictable relationship between fiscal year and the average statewide mill levy for commercial and industrial property.

Table 4
Mill Levy *
Regression Results

Fiscal Year	Average Mill Levy	Percent Change
A 1994	295.06	NA
A 1995	314.34	6.53%
A 1996	327.84	4.29%
A 1997	351.13	7.10%
A 1998	359.94	2.51%
A 1999	365.34	1.50%
	—Projected—	
F 2000	373.01	2.10%
F 2001	380.12	1.90%



* 95% of Average Statewide Mill Levy for Commercial and Industrial Property

Summary

Table 5 displays the final two steps of the total rail car tax revenue projected for fiscal years 1999 to 2001. In step 2, we multiply the total Montana allocated value by the class 12 tax rate to arrive at taxable value. In step 3, we calculate the tax liability by multiplying the taxable value by 95% of the statewide average mill levy for commercial and industrial property.

Table 5
Calculation of Rail Car Tax General Fund Revenue

Description	FY 1999 Estimated	FY 2000 Estimated	FY 2001 Estimated
Total Montana Allocated Value	$91,984,717	$92,000,000	$92,000,000
Multiply by Class 12 Tax Rate	0.0617	0.0598	0.0588
Taxable Value	$5,675,457	$5,501,600	$5,409,600
Multiply by Mill Levy	0.36534	0.37301	0.38012
General Fund Revenue	$2,073,471	$2,052,169	$2,056,292

Data Sources

The General Fund revenue transfers data is found in SBAS form 635, revenue class 0730. Department of Revenue provides information for class 12 tax rates; average statewide mill levies for commercial and industrial property; and Montana allocated rail car fleet values. Property tax representatives from Burlington Northern Santa Fe Railroad and TTX Railcar Company provided the company survey information.

INHERITANCE TAX

General Fund Revenue Estimate

Revenue Description

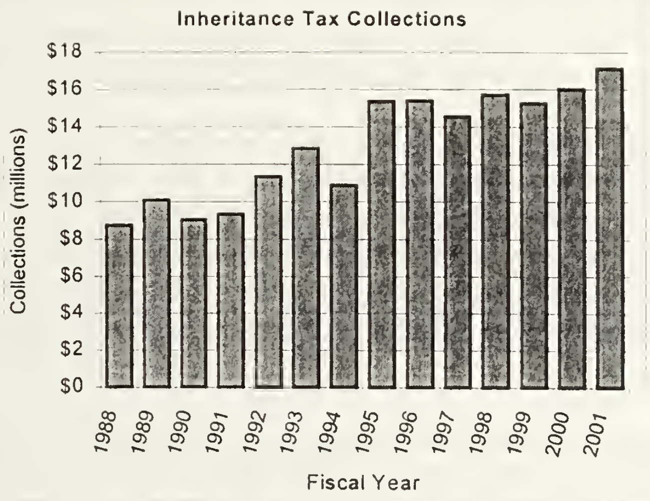
Section 72-16, Montana Code Annotated directs the Department of Revenue to collect a tax upon any transfer, as a result of death or contemplation of death, of property, real, personal, or mixed, or any interest in the property or income from the property to any other person or corporation unless otherwise exempted. The tax rate varies from zero to 32% depending on the size of the estate and the relationship of the decedent to the beneficiary. All revenue collected from the inheritance tax is deposited in the General Fund.

Historical and Projected Revenue

Table 1 presents historical and projected revenue inheritance tax collections for fiscal years 1988 to 2001. As the table shows, inheritance tax collections are projected to drop slightly in fiscal 1999 and then grow slightly for fiscal 2000 and 2001.

Table 1
Inheritance tax
General Fund Revenues
(millions)

	Fiscal Year	General Fund	Percent Change
A	1988	8.745	NA
A	1989	10.092	15.39%
A	1990	9.049	-10.33%
A	1991	9.340	3.21%
A	1992	11.338	21.40%
A	1993	12.869	13.51%
A	1994	10.886	-15.41%
A	1995	15.382	41.31%
A	1996	15.404	0.14%
A	1997	14.562	-5.46%
A	1998	15.727	7.99%
F	**1999**	**15.265**	**-2.94%**
F	**2000**	**16.031**	**5.02%**
F	**2001**	**17.121**	**6.80%**



Forecast Methodology and Projection Calculation

The method used to project inheritance tax collections uses a growth trend from historical collection data and information about the impact of recent law changes on fiscal 1998 collections. Once projections have been made, the estimated impact of the law changes on future collections is deducted to arrive at the final revenue estimate.

Recent Law Changes

In 1997 there were three statutory changes that reduced the base of the tax. House Bill 384 made all tangible personal property of a closely held business exempt from tax if the heirs are lineal descendants of the decedent's grandparents. House Bill 566 increased the insurance exclusion from $50,000 to $250,000. Senate Bill 272 removed the provision that a stepchild/stepparent relationship had to begin before the stepchild's eighteenth birthday in order for the child to be considered a lineal descendent. Now any stepchild, regardless of age at onset of the relationship, is considered a lineal descendant and property transfers to them are not taxed.

Forecasting a growth trend in inheritance tax collections that reflects all factors which combine to cause increasing collections is complicated by the fact that the base of the tax has changed. As a result of the law changes, collections in fiscal 1998 were lower than they would have been otherwise. Adding lost collections back to actual collections produces a collection number for fiscal 1998 that is comparable to previous years. Using this generated number in developing a long-term trend produces a trend, which is more reflective of the factors, apart from law changes, that determine inheritance tax collections, i.e. increasing property values, population increases, and changing demographics.

Arriving at total lost collections for fiscal 1998 is not a simple task. Actual collections losses in fiscal 1998 do not equal losses in assessments. They are different for two reasons. First, the tax is not due until eighteen months after the death of the decedent. So, taxes assessed in fiscal 1998 will not necessarily be paid in fiscal 1998. Second, the retroactive application of the stepchild law, effective for deaths occurring on or after January 1, 1995, necessitated refunds from the Department of Revenue.

Assuming heirs will take the entire eighteen months to remit payment of the tax, an estimate for lost collections in fiscal 1998 from all three law changes can be obtained. In some cases data on actual dates of tax payment indicates this assumption does not hold. In these cases the actual date of payment is used rather than the assumed date of payment.

Between both the refunds given and the resulting lower payment obligations, the stepchild age requirement change resulted in $506,667 in lost collections for fiscal 1998. The closely held business property exemption resulted in lost collections of $64,507 in fiscal 1998, and the insurance exclusion resulted in losses of $82,142. The sum of these three numbers, $653,316, represents total lost collections in fiscal 1998 due to the law changes. In other words, collections would have been $653,316 greater had these law changes not taken place.

Forecasting the Future Growth Trend

Table 2 shows the effect of including the lost collections in the calculation of a 5-year average growth rate. Both fiscal 1997 and fiscal 1998 indicate a five-year average growth rate of about 5%. Applying the 4.94% growth rate from fiscal 1998 to would be collections in 1998 makes a projection of collections for fiscal 1999 of $17.189 million. This procedure is repeated in the subsequent years to arrive at the numbers indicated in Table 2.

The numbers in Table 2 represent a forecast for collections prior to the affect of the law changes. Accordingly, the monetary effect of these law changes must be backed out of the forecasted numbers in Table 2.

Table 2
Collections Before Exemption Changes
(millions)

	Fiscal Year	General Fund	5 Year Growth
A	1990	9.049	3.40%
A	1991	9.340	2.23%
A	1992	11.338	9.47%
A	1993	12.869	8.03%
A	1994	10.886	1.53%
A	1995	15.382	11.19%
A	1996	15.404	10.52%
A	1997	14.562	5.13%
A	1998	16.380	4.94%
F	1999	**17.189**	4.94%
F	2000	**18.038**	4.94%
F	2001	**18.929**	4.94%

Future Effect of Law Changes

Because all three of these law changes became effective in April of 1997 it could be supposed that the losses in assessments for fiscal 1998 would be reflective of a full year of collections losses in years to come. For the stepchild law change this is assumed to be true because it was retroactive to all deaths occurring on or after January 1, 1995. As a result the effects of the change could be seen right from the start of fiscal 1998. However, for the closely held business exemption and insurance exclusion, which were retroactive to deaths occurring on or after January 1, 1996, there was a time lag before the Department of Revenue started seeing people take advantage of the changes.

The losses in assessments attributable to the stepchild law for fiscal 1998 is assumed to be representative of yearly losses in collections for years to come. These losses in assessments amounted to $494,010. Because the law is scheduled to terminate on July 1, 1999, only half of fiscal 2001 will be effected by the law change. Therefore, the estimated yearly loss in collections is cut in half for fiscal 2001.

As mentioned previously there was a time lag before the Department of Revenue started seeing the effect on collections of the change in the insurance exclusion. The first estate in which the new exclusion was imposed was September 26, 1997. From the first time the new exclusion was imposed in September 1997 to September 1998 there were 16 estates for which the exemption was imposed, resulting in lost assessments of $251,438. Because this number represents the effect of the insurance exclusion on assessments for a full year, it is used to represent the yearly effect on collections that the insurance exclusion will have in coming years.

Similar to the insurance exclusion, there was a time lag before the effect of the closely held business property exemption was seen. However, the time lag in spotting the effect of the closely held business exemption was longer. The first time that it was imposed was on November 3, 1997. Between November 1997 and the end of fiscal 1998, the exemption was imposed on 5 estates, resulting in lost assessments of $157,783. This number is far less than the $1,100,000 which was the estimated impact of the exemption. However, given the fact that three months into fiscal 1999 the exemption for closely held property has been imposed on 7 estates, resulting in $214,613 in lost assessments, the estimated impact of the exemption in not out of line.

The estimated impact of the exemption was made by the Department of Revenue in a fiscal note for HB 384. The estimate relied on a stratified random sample of 100 inheritance tax returns, which were reviewed to determine the amount of taxes attributable to closely held businesses. Because the previously estimated impact is in line with lost assessments for the first quarter of fiscal 1999, it is used to represent the yearly effect on collections that the exemption will have in coming years.

There is one more concern about the impact of the closely held business and stepchild law change. The effect on collections of each of these law changes is expected to increase along with the same factors which effect inheritance tax collections. In other words, increasing property values, increasing population, and changing demographic will likely cause the effect of these law changes to grow at the same rate in which inheritance taxes grow. Therefore, the numbers that represent the effect of each of these law changes, which are mentioned above, are projected at the same rate as inheritance tax collections: 4.94% a year. The effect of the insurance exclusion is not grown out because it is less clear whether the number estates that contain insurance policies worth between $50,000 and $250,000 will increase along with the same factors which effect inheritance tax collections.

Inheritance Tax Collections

Table 3 indicates the final estimates for forecasted revenue collections from the inheritance tax. All of the information contained in Table 3 was previously mentioned. The numbers in Table 3 for the yearly effect of stepchild age requirement and closely held business property are grown out at a rate a 4.94% per year.

TABLE 3

Final Inheritance Tax Collections Summary

(millions)

	FY 1988	FY 1999	FY 2000	FY 2001
Description	Actual	Estimated	Estimated	Estimated
Estimates prior to lost collections adjustments	$ 16.380	$ 17.189	$ 18.038	$ 18.929
Minus change in stepchild age requirment	(0.507)	(0.518)	(0.544)	(0.285)
Minus increase in insurance exclusion	(0.082)	(0.251)	(0.251)	(0.251)
Minus closely held business exemption	(0.065)	(1.154)	(1.211)	(1.271)
Inheritance tax collections	**$ 15.727**	**$ 15.265**	**$ 16.031**	**$ 17.121**

Data Sources

The data used to calculate the estimates here were obtained from two sources. SBAS form 635 under the statewide revenue class of 0745 provided the yearly collections totals. Gary Moden and Bill Alger in the Inheritance Tax section of the Department of Revenue provided the information regarding lost collections.

SCHOOL INTEREST AND INCOME

General Fund Revenue Estimate

Revenue Description

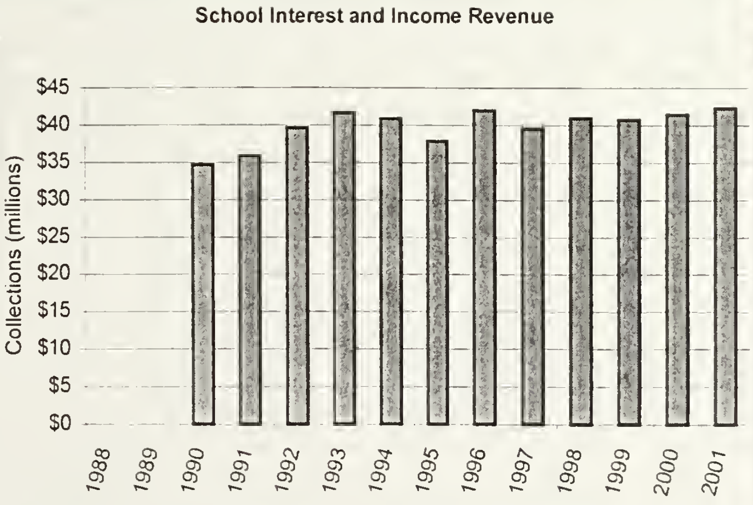
School interest and income revenue is generated from the investment of the permanent school trust fund and income related to state school lands. The General Fund receives 95 percent of the investment income on the school permanent fund plus 95 percent of the distributable incomes (grazing and crop leases, timber harvests, and recreational permits) on school lands. A small percentage (2.5 percent during the next biennium) of certain distributable incomes is set aside for resource development.

Historical and Projected Revenue

Table 1 presents historical and projected revenue collections to the General Fund from school interest and income for fiscal years 1988 to 2001. General Fund revenues from school interest and income have fluctuated over the past eight years due primarily to minor law changes and changing interest rates. Future revenues are highlighted by a minor projected decline in fiscal 1999 due to projected decreases in interest rates and small increases in fiscal 2000 and 2001, a result of recovering interest rates.

Table 1
School Interest and Income Revenue
General Fund Collections
(millions)

	Fiscal Year	General Fund	Percent Change
A	1988	$ -	NA
A	1989	$ -	NA
A	1990	$ 34.707	NA
A	1991	$ 35.866	3.34%
A	1992	$ 39.616	10.46%
A	1993	$ 41.674	5.19%
A	1994	$ 40.944	-1.75%
A	1995	$ 37.904	-7.42%
A	1996	$ 42.032	10.89%
A	1997	$ 39.539	-5.93%
A	1998	$ 40.996	3.68%
F	**1999**	**$ 40.817**	**-0.44%**
F	**2000**	**$ 41.431**	**1.50%**
F	**2001**	**$ 42.331**	**2.17%**



Forecast Methodology and Projection Calculation

Revenues to the General Fund from school interest and income are projected in the following manner: (1) project the average annual balance of the school portion of the trust and legacy account, including future revenues; (2) estimate how the balance in the trust and legacy account is invested with respect to the Short-term Investment Pool and the Trust Fund Bond Pool; (3) project rates of return for investments in Short-term Investment Pool and Trust Fund Bond Pool over the biennium; and (4) estimate income related to state lands to the General Fund . The interest income and income from state lands is then combined into one estimate with 3.0% awarded to resource development in fiscal 1999 (2.5% in fiscal years 2000 and 2001) and 5% retained in the trust and legacy account. The remainder is credited to school interest and income revenue to the General Fund.

Interest Income

The school portion of the trust and legacy account amounts to approximately 93.9% of the trust and legacy balance. The average balance of the trust and legacy account in fiscal 1998 was $328.9 million. Revenues to the trust and legacy account are expected to average $10.0 million per year yielding average balances in the account of $338.958 million in fiscal 1999, $348.958 million in fiscal 2000, and $358.958 million in fiscal 2001. The expected $10.0 million in revenues is based on average revenues received by the account over the past five years.

The trust and legacy account is invested approximately 3.5% in Short-term Investment Pool funds and 96.5% in Trust Fund Bond Pool funds. Forecasted interest rates by Wharton Econometrics in September 1998 are used to project the rate of return for each year of the biennium. The combined projected rates of return for the trust and legacy account are 7.679% in fiscal 1999, 7.584% in fiscal 2000, and 7.623% in fiscal 2001, which reflect a short-term drop in interest rates with some recovery in rates over the biennium.

Table 2 lists the projected balance of the trust and legacy account and the expected portion of interest that would be credited as gross revenue from trust and legacy account balances. Of the total revenue 93.9% is allocated to the General Fund.

Table 2

Projected General Fund Earnings – Gross Interest from T & L Account

Fiscal Year	Average Balance (Millions)		Combined Rate of Return		Projected Gross Revenues – 93.9% (Millions)
1998	$ 328.958	x	7.882%	=	$ 24.206
1999	$ 338.958	x	7.679%	=	$ 24.441
2000	$ 348.958	x	7.584%	=	$ 24.851
2001	$ 358.958	x	7.623%	=	$ 25.694

Income From School Lands

Income to the General Fund from state lands is realized through leasing of state lands for agriculture, grazing, and other purposes. Other sources of income include timber sales, special uses, land contracts, trust and legacy accruals, and investments in Short-term Investment Pool prior to transfer of monies. Table 3 lists the expected revenues to the General Fund over the next biennium from income related to state lands. Revenues from agriculture rentals are expected to decline in fiscal 1999 due to lower prices from crops. Prices are projected to recover to fiscal 1995 and fiscal 1996 levels by the end of the biennium. Other categories of income are projected to remain stable or slightly increase over the next several years. The miscellaneous sources decline projected for fiscal 1999 is due to expected lower interest earnings from investments in the Short-term Investment Pool.

Table 3

Projected General Fund Earnings – Gross Income from State Lands
(Millions of Dollars)

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Fiscal Year	Agriculture Rents	Grazing Rents	Other Rents	Net Timber	Misc Sources	Total Gross
1998	$ 8.965	$ 3.733	$ 2.712	$ 2.801	$ 1.240	$ 19.451
1999	$ 8.750	$ 3.800	$ 2.700	$ 2.800	$ 0.972	$ 19.022
2000	$ 8.900	$ 3.800	$ 2.700	$ 2.800	$ 0.979	$ 19.179
2001	$ 9.000	$ 3.800	$ 2.700	$ 2.800	$ 0.986	$ 19.286

Table 4 shows the interest and income revenue projected in Table 2 and state land income shown in Table 3 that is credited to the General Fund. The 3% (2.5% in fiscal 2000 and 2001) retained for resource development is deducted from direct state land income while the 5% retention is calculated from total gross income.

Table 4
Projected General Fund Revenue – School Interest and Income
(Millions of Dollars)

Fiscal Year	Interest Income		Lands Income		Total Income		Resource Develop.		5.0% Retained In Trust		General Fund
1998	$ 24.206	+	$ 19.451	=	$ 43.657	-	($0.478)	-	($2.183)	=	**$ 40.996**
1999	$ 24.441	+	$ 19.022	=	$ 43.463	-	($0.473)	-	($2.173)	=	**$ 40.817**
2000	$ 24.851	+	$ 19.179	=	$ 44.030	-	($0.398)	-	($2.202)	=	**$ 41.431**
2001	$ 25.694	+	$ 19.286	=	$ 44.980	-	($0.400)	-	($2.249)	=	**$ 42.331**

Data Sources

Data sources for estimates of General Fund revenue from the school interest and income include FYE SBAS reports, interest rate projections as provided by Wharton Econometrics (Sept 98), and unpublished data and information provided by the Montana Department of Natural Resources.

COAL TRUST FUND INTEREST EARNINGS

General Fund Revenue Estimate

Revenue Description

The Permanent Coal Tax Trust Fund (PCTF) was established in 1976 to set aside a portion of the coal severance tax levied on Montana coal mines for future generations. The PCTF receives quarterly revenues from the coal severance tax and at the end of fiscal 1998 had a balance of $539.1 million.

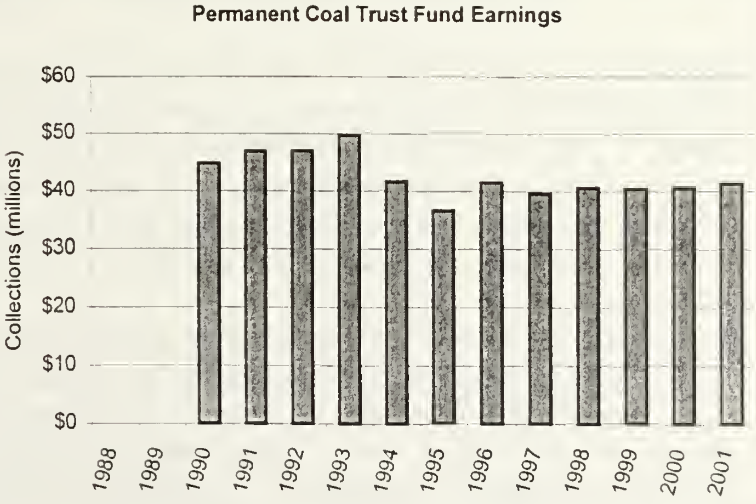
Fifty percent of coal severance tax revenues are earmarked for the Permanent Coal Trust Fund. Of this coal severance tax deposited into the PCTF, half is credited to the Treasure State Endowment Fund within the PCTF. Interest earned on the Treasure State Endowment Fund is used to finance local government infrastructure projects through the Montana Department of Commerce and the Department of Environmental Quality. Interest from investment of the balance of the PCTF less the portion allocated to the Treasure State Endowment Fund is credited to the General Fund.

Historical and Projected Revenue

Table 1 presents historical and projected revenue collections to the General Fund from investment of the PCTF for fiscal years 1990 through 2001. Revenues to the PCTF from the coal severance tax are projected to remain level over the next several years.

Table 1
Permanent Coal Trust Fund Earnings
General Fund Collections
(millions)

	Fiscal Year	General Fund	Percent Change
A	1988	$ -	NA
A	1989	$ -	NA
A	1990	$ 44.830	NA
A	1991	$ 46.999	4.84%
A	1992	$ 47.070	0.15%
A	1993	$ 49.788	5.77%
A	1994	$ 41.725	-16.19%
A	1995	$ 36.675	-12.10%
A	1996	$ 41.532	13.24%
A	1997	$ 39.554	-4.76%
A	1998	$ 40.746	3.01%
F	**1999**	**$ 40.413**	-0.82%
F	**2000**	**$ 40.606**	0.48%
F	**2001**	**$ 41.350**	1.83%



General Fund revenues from interest on the PCTF decreased in fiscal 1994 and 1995 due to funding Treasure State Endowment Fund and declining long-term interest rates. Future revenues are highlighted by a minor projected decline in fiscal 1999 due to projected decreases in interest rates and small increases in fiscal 2000 and 2001 from slightly higher interest rates.

Forecast Methodology and Projection Calculation

Forecasting revenue to the General Fund from interest on the permanent coal tax trust fund consists of: 1) projecting the average balance of the trust fund available for investment; 2) estimating the portion of the trust fund that is applicable to the General Fund; and 3) projecting the estimated rate of return on investment of the balance of the trust fund for each year of the projection period and applying the rate of return to the applicable balance.

The balance of the PCTF stood at $539.107 million as of June 30, 1998. Revenues to the PCTF from mine operations are projected based on past trends and interviews with individual mine managers. Revenues for fiscal 1999, fiscal 2000, and fiscal 2001 are expected to total $40.4 million, $40.6 million, and $41.4 million, respectively. This represents a slight annual increase for each year and is consistent with past trends over the last five years. The average balance is calculated from the balance at the end of fiscal 1998 plus one-half of new revenues for each year of the projection period. (by law, one-half of all coal tax revenues are deposited in the PCTF).

Fifty percent of the revenues earmarked for the PCTF are applied to the Treasure State Endowment Fund within the PCTF and interest earned on the balance of the Treasure State Endowment Fund is not deposited to the General Fund, but is used to finance local government infrastructure projects. Thus, the balance of the PCTF applicable to interest earnings for the General Fund actually increases by one-half of the amount deposited to the PCTF.

Based on the balance of the PCTF at the end of fiscal 1998 and projected revenues from coal tax, the expected average balance for the PCTF for each of the next three fiscal years is expected to be $552.9, $561.2, and $569.0 million. The revenues added to the balances each year are projected quarterly and the average balance for each year is calculated based on the expected timing of receipt of the taxes from the coal companies and the beginning balance.

The PCTF is invested in the Short-term Investment Pool (4.4%), the Trust Fund Bond Pool (76.5%), and in state and other commercial loans (19.1%). The portions invested in each category are based on historical investments, input from the Montana Board of Investments, and current obligations to in-state loans. The rate of return for each type of investment is based in part on

historical rates and expected rates as forecasted by Wharton Econometrics. The approximate expected rates of return for the three categories over the projection period (with minor variances from year-to-year) are 5.5% for Short-term Investment Pool Funds, 7.7% for Trust Fund Bond Pool funds, and 7.0% for in-state and commercial loans.

Table 2 depicts the projected revenue from the coal tax trust fund over the next biennium based on the described methodology. The rates of return for the three categories have been combined into one rate using the Short-term Investment Pool, Trust Fund Bond Pool, commercial loan rates, and the portion of the balance of the PCTF invested in each category. The combined rate is expected to decline in fiscal 1999 and then recover slightly over the next biennium.

Table 2
Projected General Fund Earnings – Coal Tax Trust Fund

Fiscal Year	Average Balance (Millions)		Combined Rate of Return		Projected Revenues (Millions)
1998	$ 543.857	x	7.492%	=	$ 40.746
1999	$ 552.867	x	7.310%	=	$ 40.413
2000	$ 561.193	x	7.236%	=	$ 40.606
2001	$ 569.017	x	7.267%	=	$ 41.350

Data Sources

Data sources for estimates of General Fund revenue coal trust fund earnings include FYE SBAS reports, interest rate projections as provided by Wharton Econometrics (Sept 98), and unpublished data and information from the Montana Board of Investments. In addition, unpublished interviews with coal mine production managers were conducted by the Legislative Fiscal Division and the results of these interviews were utilized along with historic trends to project future coal production (see coal severance tax revenue category).

TREASURY CASH ACCOUNT INTEREST

General Fund Revenue Estimate

Revenue Description

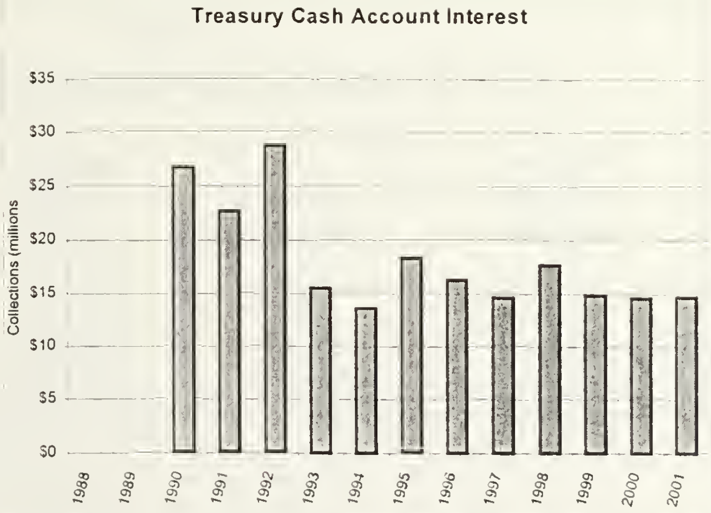
Investment income from the Treasury Cash Account is credited to the General Fund. While Treasury Cash Account funds are invested in a mixture of short and medium-term investments, Sections 17-6-201 and 16-6-211, MCA, provide guidelines under which monies in the Treasury Cash Account must be invested. In addition to the normal cash balances in the Treasury Cash Account, projected cash flow deficiencies may be addressed by issuing tax revenue anticipation notes (TRANS). Funds from the notes which are placed in the Treasury Cash Account increase the balance invested which increases the interest income to the General Fund.

Historical and Projected Revenue

Table 1 presents historical and projected revenue collections to the General Fund from interest earned on the Treasury Cash Account for fiscal years 1990 through 2001. Fluctuation in revenue collections since fiscal 1990 are primarily due to changing interest rates and the amount of TRANS issued each year. Future revenues are highlighted by a minor projected decline in fiscal 1999 due to projected decreases in interest rates and expected smaller issuance of TRANS due to acceptable balances in the Treasury Cash Account. The slight increases projected for the next biennium are due to recovering interest rates as forecast by Wharton.

Table 1
Treasury Cash Acount Interest
General Fund Collections
(millions)

	Fiscal Year	General Fund	Percent Change
A	1988	$ -	NA
A	1989	$ -	NA
A	1990	$ 26.725	NA
A	1991	$ 22.624	-15.35%
A	1992	$ 28.703	26.87%
A	1993	$ 15.535	-45.88%
A	1994	$ 13.642	-12.19%
A	1995	$ 18.270	33.92%
A	1996	$ 16.294	-10.82%
A	1997	$ 14.664	-10.00%
A	1998	$ 17.705	20.74%
F	**1999**	**$ 14.920**	**-15.73%**
F	**2000**	**$ 14.621**	**-2.00%**
F	**2001**	**$ 14.733**	**0.77%**



Forecast Methodology and Projection Calculation

Forecasting revenues to the General Fund from interest earned on the Treasury Cash Account consists of: 1) project the average balance available for investing in each of the projection years; 2) determine the expected rates of return depending on how the Treasury Cash Account balance is invested; and 3) apply the projected rates of return to the balances available for investment.

In fiscal 1998 the average balance invested in the Treasury Cash Account was $296.873 million. This amount included Tax Revenue Anticipation Notes (TRANS) of $110.7 million, which were available for investment for approximately three-fourths of the year. In fiscal 1999, the expected balance of the Treasury Cash Account is $274.5 million including a TRANS amount of $68.6 million. The lower projected balance of the Treasury Cash Account is a direct result of less TRANS funds being available. The projected balance of the Treasury Cash Account over the next biennium is $265.0 million in fiscal 2000 and 2001 with a TRANS amount of $90.0 million in each year.

The average balance of the Treasury Cash Account is invested in Short-term Investment Pool (39%), cash equivalents (9%), and short-term bonds (52%). The average rate of return for fiscal 1998 was 5.964%. Based on Wharton forecasts over the next biennium and the balance of the Treasury Cash Account invested in the prescribed portions, the projected rates of return are 5.437% in fiscal 1999, 5.507% in fiscal 2000, and 5.549% in fiscal 2001. These rates are a result of lower forecasted interest rates in the fiscal 1999 and slightly recovering rates over the next biennium.

Table 2 lists the expected balance of the Treasury Cash Account, the forecasted rates of return, and the corresponding expected revenues to the General Fund from investment of the Treasury Cash Account average balance.

Table 2
Projected General Fund Earnings – Interest from TCA

Fiscal Year	Average Balance (Millions)		Combined Rate of Return		Projected Revenues (Millions)
A 1998	$ 296.873	x	5.964%	=	$ 17.705
F 1999	$ 274.450	x	5.437%	=	$ 14.920
F 2000	$ 265.500	x	5.507%	=	$ 14.621
F 2001	$ 265.500	x	5.549%	=	$ 14.733

Data Sources

Data sources for estimates of General Fund revenue from the Treasury Cash Account include FYE SBAS reports, interest rate projections as provided by Wharton Econometrics (Sept 98), and unpublished data and information from the Montana Board of Investments.

INSURANCE PREMIUMS TAX

General Fund Revenue Estimate

Revenue Description

Title 33, Chapter 2, Part 7, MCA provides for most of the taxes and fees associated with the insurance industry in Montana. Sections 33-2-705 and 706, MCA, require the reporting of all premium income and the payment of tax equal to 2.75% on all net premiums reported. Section 50-3-109, MCA, provides for an additional 2.5% tax on fire insurance premiums.

Section 33-2-708, 33-17-1204, MCA, and 33-17-1205 provides for the multitude of fees and licenses levied on the various types of insurance activities in the state.

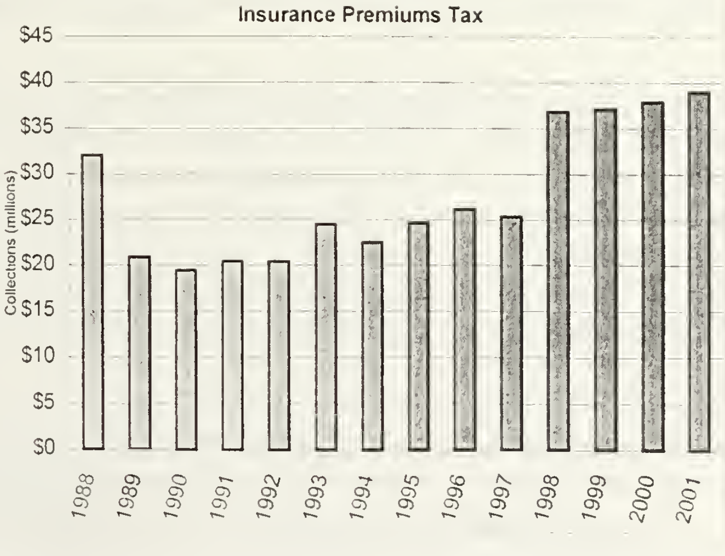
Section 33-2-712, MCA provides for a genetics program fee of $0.70 per each Montana resident insured under any individual or group disability or health insurance policy, used to fund the statewide genetics program established in 50-19-211, MCA.

Historical and Projected Revenue

Table 1 shows the historic and projected revenue from this revenue source.

Table 1
Insurance Premiums Tax
General Fund Collections
(millions)

	Fiscal Year	General Fund	Percent Change
A	1988	$32.047	NA
A	1989	$20.883	-34.84%
A	1990	$19.446	-6.88%
A	1991	$20.438	5.10%
A	1992	$20.387	-0.25%
A	1993	$24.464	20.00%
A	1994	$22.511	-7.98%
A	1995	$24.600	9.28%
A	1996	$26.133	6.23%
A	1997	$25.342	-3.03%
A	1998	$36.813	45.26%
F	**1999**	**$37.111**	**0.81%**
F	**2000**	**$37.906**	**2.14%**
F	**2001**	**$38.967**	**2.80%**



Forecast Methodology and Projection Calculation

The forecast of total insurance premiums taxes is based in large part on information provided by the State Auditor's Office, and is composed of the following components:

1) net agent fees and permit revenue;
2) net company fees and permit revenue;
3) genetics program revenue; and
4) net insurance premiums tax.

Each of these components is discussed in subsequent sections.

Net Agent Fees

Table 2 shows historic and forecast data for agent fees.

Table 2
Net Agent Fees - General Fund Revenue

Fiscal	Gross Agent Fees		Non-Resident Renewal Fees		Continuing Education Fees		Net Fees to General Fund
A 1995	$ 755,775	-	$36,225	-	$199,339	=	$520,211
A 1996	$ 775,120	-	$40,895	-	$141,070	=	$593,155
A 1997	$ 682,970	-	$50,345	-	$146,789	=	$485,836
A 1998	$ 1,026,597	-	$64,270	-	$142,490	=	$819,837
F 1999	**$ 1,117,090**	-	**$70,700**	-	**$143,450**	=	**$902,940**
F 2000	**$ 1,207,540**	-	**$77,800**	-	**$143,450**	=	**$986,290**
F 2001	**$ 1,219,990**	-	**$85,500**	-	**$143,450**	=	**$991,040**

Gross agent fees represent the fees paid by individual agents for applications for original licenses, appointments of insurance producers, temporary licenses, amendments to licenses, and terminations of licenses. The annual amount of these fees is primarily a function of the general climate of the insurance industry, and the number of agents operating in any given year. Net agent fee revenue increased substantially in fiscal 1998 with a large increase in the number of agents filing for licenses. The forecast of gross fees is based primarily on conversations with industry representatives.

Gross agent fees include non-resident renewal fees and continuing education fees. These latter two fees are deposited in state special revenue accounts and must be subtracted from gross agent fees to arrive at net fees to the General Fund.

Non-resident renewal fees are paid by non-resident agents licensed to do business in Montana. Historic growth is a direct reflection of the growing number of non-resident agents licensed each year. This growth trend is continued into the forecast period.

Insurance agents are required by law to complete a specified number of credit hours of continuing education courses approved by the commissioner of insurance. Fees are charged for attending these courses. In addition, insurance agents subject to the continuing education requirements are required to file a form detailing the courses completed each year, along with a filing fee established by the commissioner. The level of these fees has been fairly constant over the past three years. The forecast assumes a level equal to the average of these past three years.

Net fees to the general fund are calculated by subtracting non-resident renewal fees and continuing education fees from gross agent fees.

Net Company Fees

Table 3 shows historic and forecast data for company fees.

Table 3

Net Company Fees - General Fund Revenue

Fiscal	Gross Company Fees		Accreditation Fees		Contract Examiner Fees		Net Fees to General Fund
A 1995	$ 1,905,963	-	$236,014	-	$66,423	=	$1,603,517
A 1996	$ 1,908,269	-	$265,200	-	$0	=	$1,643,069
A 1997	$ 2,092,485	-	$267,825	-	$0	=	$1,824,660
A 1998	$ 2,142,864	-	$377,189	-	$110,000	=	$1,655,675
F 1999	**$ 2,154,000**	-	**$378,400**	-	**$105,000**	=	**$1,670,600**
F 2000	**$ 2,189,000**	-	**$381,150**	-	**$117,600**	=	**$1,690,250**
F 2001	**$ 2,358,000**	-	**$383,900**	-	**$181,500**	=	**$1,792,600**

Gross company fees include fees paid by insurance companies for original certificates of authority to operate in Montana, annual continuations of authority, articles of incorporation, filing of bylaws or amendments, and filing of annual statements. These fees are not as volatile as agent fees because, while the number of companies operating in Montana may not vary much from year to year, the number of agents employed or operating in Montana may vary significantly. The forecast of company fees is based on historic collections, and on conversations with and expectations of industry representatives.

Gross company fees include accreditation fees and contract examiner fees. These latter two fees are deposited in state special revenue accounts and must be subtracted from gross company fees to arrive at net fees to the General Fund.

Each domestic and foreign insurer is required to pay an accreditation fee when submitting the fee for annual continuation of its certificate of authority to conduct business in Montana. This fee amount is established by the commissioner by rule. Fees were relatively stable in fiscal 1996 and 1997. Total fees increased significantly in fiscal 1998 when the fee amount increased from $200 to $275. The forecast provides for modest growth in this fee revenue, consistent with growth prior to the fee change.

The State Auditor's Office is required to conduct examinations of insurance companies, for which the company pays a fee. The amount of fees in any given year is subject primarily to the schedule of examinations developed by the State Auditor's Office. In fiscal years 1996 and 1997, the State Auditor's Office complied with legislation requiring them to charge companies directly for examinations and abate the expenditures; hence, there was no general fund revenue reported. The Legislative Auditor's Office found this practice to be in violation of Generally Accepted Accounting Principles and required a return to accounting for collections to the General Fund beginning in fiscal 1998. The forecast of these fees is directly related to the schedule of examinations to be completed over the forecast period. The large increase in fiscal 2001 reflects the anticipated large number of examinations to be completed that year.

Net fees to the general fund are calculated by subtracting accreditation fees and contract examination fees from gross company fees.

Genetics Program Fee

Section 50-19-211, MCA provides for a voluntary genetics program designed to offer testing, counseling, and education to parents and prospective parents. Among other things, the program provides follow up programs for newborn testing; comprehensive genetic services to all segments of the population; and development of counseling and testing programs for the diagnosis and management of genetic conditions and metabolic disorders. This program is funded by a fee, paid by insurers or health service corporations, of 70¢ for each Montana resident insured under any individual or group disability or health insurance policy. The fee is deposited in the General Fund. Table 4 shows historic and forecast revenue from this fee.

Table 4
Genetics Program Fee - General Fund Revenue

Fiscal	Genetic Program Fees
A 1995	$602,209
A 1996	$614,314
A 1997	$541,255
A 1998	$574,409
F 1999	**$580,000**
F 2000	**$585,000**
F 2001	**$590,000**

Historic collections for the period fiscal 1995 through fiscal 1998 reflect the actual amount of fee revenue remitted by insurance companies in each year. It is not known why there was a significant drop in fiscal year 1997. Revenues are forecast to grow at $5,000 per year for the forecast period from the base year of fiscal 1998. This represents the State Auditor's Office best estimate of the revenue from this source.

Insurance Premiums Tax

Historically, net insurance premiums taxes to the General Fund have been determined by subtracting certain offsets to the tax, refunds, and payments to state retirement plans from gross premium taxes. HB169 and HB430 (1997) de-earmarked the portion of the tax going to police and firemen's pension funds and supplemental benefits, and provided for deposition of the tax to the General Fund.

Table 5 shows the components used to calculate net insurance premiums tax revenue to the General Fund.

Table 5
Net Insurance Premiums Tax - General Fund

Fiscal	Gross Prem. Tax		MLHIGA Offsets		MCHA Offsets		Refunds		Payments To P.E.R.D.		Net Fees to General Fund
A 1995	$ 34,524,115	-	$3,185,906	-	$80,028	-	$509,648	-	$9,418,937	=	$21,329,596
A 1996	$ 37,148,462	-	$3,357,000	-	$0	-	$1,108,407	-	$9,946,134	=	$22,736,921
A 1997	$ 37,712,324	-	$3,246,728	-	$4,440	-	$857,481	-	$12,944,316	=	$20,659,359
A 1998	$ 37,685,385	-	$2,801,203	-	$228,515	-	$662,822	-	$0	=	$33,992,845
F 1999	$ **37,642,000**	-	**$1,954,000**	-	**$700,000**	-	**$800,000**	-	**$0**	=	**$34,188,000**
F 2000	$ **37,408,000**	-	**$1,029,000**	-	**$700,000**	-	**$800,000**	-	**$0**	=	**$34,879,000**
F 2001	**$ 37,886,000**	-	**$551,000**	-	**$700,000**	-	**$800,000**	-	**$0**	=	**$35,835,000**

Gross premiums taxes, which are a function of total volume of business and the levels of premiums charged, have grown very slowly since fiscal 1996. Furthermore, as shown in Table 5, gross taxes are expected to remain flat over the forecast period.

This slow growth is reflected in actual *total* collections for this revenue source (fiscal year end collections including agent and company fees and genetics program revenues). Collections in fiscal 1997 were about $3 million below projections. Official estimates for fiscal 1998 and fiscal 1999 are $41.027 million and $43.224 million. In fiscal 1998, actual collections were $36.813 million, $4.21 below the estimate; the forecast presented here estimates fiscal 1999 total collections at $39.209 million, which is $4.015 million below the current official estimate. These differences between actual and current forecast collections and official estimates is driven primarily by the slow growth in gross premiums taxes.

The State Auditor's Office forecasts are based on recent conversations with representatives of the insurance industry. These representatives have indicated that premiums charged by insurance companies will generally remain stable over the course of the coming years. Recent stock market performance has provided insurance companies with significant returns on their investments, which has allowed them to keep insurance premiums low in order to maintain or increase market share. If the stock market enters a protracted period of decline, however, insurance companies may resort to increasing premiums to maintain their profit margins. But for the near future, industry representatives feel that premiums will not be increasing. This means that growth in premiums tax will largely be a function of increases in the number of total customers.

Offsets to the insurance premiums tax are provided to the Montana Life and Health Insurance Guarantee Association (MLHIGA). When an insurance carrier doing business in Montana becomes insolvent, the remaining insurance companies are assessed an amount proportional to the volume of premiums they issue to cover the liabilities of the insolvent company. These assessments, generally allowed for a period of up to five years following the insolvency, may be used to offset insurance premium taxes. Current offsets reflect the combined impact of several insolvencies, mostly small carriers. However, the recent insolvency of one comparatively large insurer required large offsets over the period fiscal 1995 to fiscal 1997. As this insolvency is paid off, however, offsets are forecast to decline significantly over the forecast period. Another insolvency by a large carrier could require adjustment to this forecast of MLHIGA offsets.

Offsets are also provided to the Montana Comprehensive Health Association (MCHA). Certain health insurers cover very high-risk clients (e.g., clients with pre-existing conditions). When these companies' premiums are insufficient to cover claims, the remaining health insurance companies are assessed an amount

proportional to their volume of premiums to cover the claims of these companies. These assessments also may be used to offset insurance premiums taxes.

The MCHA offset component is highly volatile. For example, in fiscal 1996 no offsets were used because premiums of high-risk insurers were sufficient to cover all claims. However, the number of enrollments in the association plan more than doubled from 304 to 706 between 1996 and 1998. This huge increase in enrollment prompted the large increase in the forecast amounts for these offsets over the forecast period.

Insurance companies are entitled to refunds of tax overpayments. The forecast amount over the period fiscal 1999 to fiscal 2001 is reflective of the general level of refunds over the period fiscal 1995 through fiscal 1998.

Until fiscal 1998, a portion of the insurance premiums tax was earmarked for retirement plans. Statutory changes in the percentage allocations to retirement plans increased this portion significantly in fiscal 1997. However, the 1997 legislature de-earmarked this revenue and placed it directly in the General Fund. Collections beginning in fiscal 1998 reflect gross premiums taxes net of MLHIGA and MCHA offsets and tax refunds.

Net Collections to General Fund

Total collections to the General Fund are calculated as the sum of agent fees, company fees, genetics program fees, and net insurance premiums tax, as shown in Table 6.

Table 6
Insurance Premiums Tax - General Fund

Fiscal	Net Agent Fees		Net Company Fees		Genettic Prog. Fees		Net Insurance Premiums Tax		Net GF Collections
F 1999	$ 902,940	+	$ 1,670,600	+	$ 580,000	+	$ 34,188,000	=	$ 37,341,540
F 2000	$ 986,290	+	$ 1,690,250	+	$ 585,000	+	$ 34,879,000	=	$ 38,140,540
F 2001	$ 991,040	+	$ 1,792,600	+	$ 590,000	+	$ 35,835,000	=	$ 39,208,640

Data Sources

All of the data used to develop this revenue estimate was contained in information provided by the State Auditor's Office. This included a report detailing historic and forecast collections from agent fees, company fees, genetics program fees, and insurance premiums tax revenue. Other information included documentation of statutory accounting requirements, and growth in Montana Comprehensive Health Association Plan Enrollment.

INSTITUTIONAL REIMBURSEMENTS

General Fund Revenue Estimate

Revenue Description

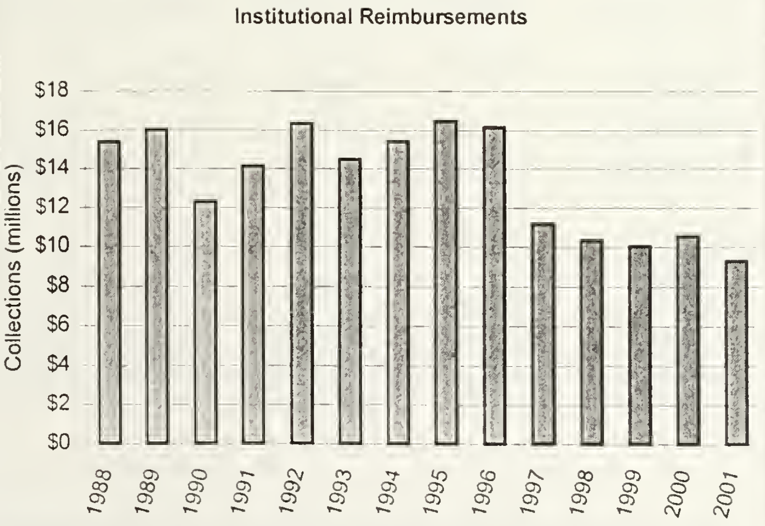
General Fund reimbursements are received from Medicaid, Medicare, private insurance, and private individuals for the cost of care and treatment provided at Montana State Hospital, Montana Developmental Center, Montana Mental Health Nursing Care Center, Montana Veteran's Home, and the Montana Chemical Dependency Center. Reimbursements received by these institutions except the Montana Veteran's Home and Montana Chemical Dependency Center are deposited in the General Fund. Medicaid payments account for 80 percent of reimbursements, private payments 15 percent, and medicare and insurance the remainder.

Historical and Projected Revenue

Historical and projected General Fund revenue from institutional reimbursements are displayed in Table 1. Fluctuations in revenue are due to changes in policy regarding the disposition of funds, debt service payments, and institutional populations. Beginning in fiscal 1990 the General Fund portion of medicaid reimbursements was appropriated directly to the institution leading to a reduction in reimbursements.

Table 1
Institutional Reimbursements
General Fund Revenues
(millions)

	Fiscal Year	General Fund	Percent Change
A	1988	$ 15.395	NA
A	1989	$ 16.031	4.13%
A	1990	$ 12.285	-23.37%
A	1991	$ 14.141	15.11%
A	1992	$ 16.329	15.48%
A	1993	$ 14.486	-11.29%
A	1994	$ 15.415	6.41%
A	1995	$ 16.456	6.76%
A	1996	$ 16.142	-1.91%
A	1997	$ 11.158	-30.87%
A	1998	$ 10.335	-7.38%
F	**1999**	**$ 10.054**	**-2.72%**
F	**2000**	**$ 10.552**	**4.95%**
F	**2001**	**$ 9.308**	**-11.79%**



In fiscal 1997 the implementation of mental health managed care-reduced reimbursements as medicaid payments were made to the managed care contractor who paid institutional costs directly. Debt service payments for projects at the Montana Developmental Center (fiscal 1995) and Montana State Hospital (fiscal 1998) are deducted directly from the reimbursement revenue source. Reductions projected in fiscal 2000 and 2001 result from projected reduction in institutional populations. Patients at Eastmont Human Services Center and Montana Developmental Center are being moved into community care.

Forecast Methodology and Projected Calculation

The estimate is made by projecting the number of days of care and the rate per day paid at each institution for medicaid and the total reimbursement for each other type of reimbursement. Debt service payments made from institutional reimbursements are subtracted to determine net General Fund revenue. The following table lists the revenue by type and institution for fiscal 1999 through fiscal 2001.

Table 2

Projected Institutional Reimbursements By Payor

MDC = Montana Developmental Center
MMNCC = Montana Mental Health Nursing Care Center
EHCC = Eastmont Human Services Center
MSH = Montana State Hospital

Fiscal		Medicaid	+	Medicare	+	Insurance	+	Private	-	Debt Service	=	Net General Fund
1999	MDC	$ 7,523,000		$ 6,000		$ 2,000		$ 261,000		$ (991,000)		$ 6,801,000
	MMNCC	0		1,000		3,000		990,000				$ 994,000
	EHCC	2,183,000		1,000		0		166,000				$ 2,350,000
	MSH	0		84,000		432,000		648,000		(1,255,000)		$ (91,000)
	TOTAL	$ 9,706,000		$ 92,000		$ 437,000		$206,5000		$ (2,246,000)		$ 10,054,000
2000	MDC	$ 8,321,000		$ 6,000		$ 2,000		$ 288,000		$ (1,090,000)		$ 7,527,000
	MMNCC	0		1,000		3,000		1,105,000				$ 1,109,000
	EHCC	2,510,000		1,000		0		190,000				$ 2,701,000
	MSH	0		71,000		366,000		688,000		(1,910,000)		$ (785,000)
	TOTAL	$ 10,831,000		$ 79,000		$ 371,000		$ 2,271,000		$ (3,000,000)		$ 10,552,000
2001	MDC	$ 7,578,000		$ 6,000		$ 2,000		$ 263,000		$ (1,093,000)		$ 6,756,000
	MMNCC	0		1,000		3,000		1,125,000				$ 1,129,000
	EHCC	2,035,000		1,000		0		154,000				$ 2,190,000
	MSH	0		71,000		365,000		706,000		(1,909,000)		$ (767,000)
	TOTAL	$ 9,613,000		$ 79,000		$ 370,000		$ 2,248,000		$ (3,002,000)		$ 9,308,000

Data Sources

The General Fund revenue data is found in SBAS form 635, revenue class 1196. Rate and institutional population data is supplied by DPHHS.

NURSING FACILITY UTILIZATION FEE

General Fund Revenue Estimate

Revenue Description

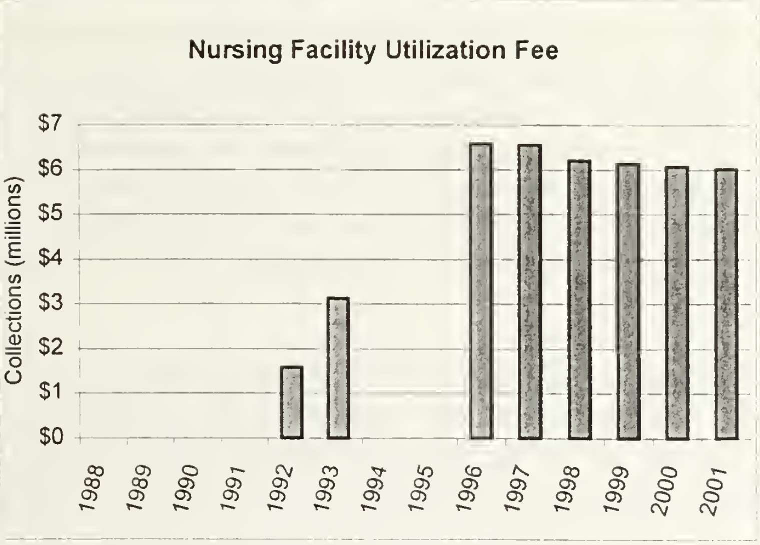
Title 15, Chapter 60, MCA, provides for a nursing facilities utilization fee. Nursing facilities are required to pay a utilization fee in the amount of $2.80 for each bed day in the facility. "Nursing facilities" are health care facilities licensed by the Department of Health and Human Services (DPHHS) as facilities providing "skilled nursing care" or "intermediate nursing care". It does not matter whether the facility is nonprofit or for-profit; freestanding or part of another facility; or publicly or privately owned. A "bed day" means each 24-hour period that a resident is present in the facility and receiving either skilled or intermediate nursing care, *regardless of the source of payment*. All proceeds of this fee are deposited in the General Fund.

Historical and Projected Revenue

Table 1 shows historic and projected revenues for the nursing facility utilization fee.

Table 1
Nursing Facility Utilization Fee
General Fund Revenues
(millions)

	Fiscal Year	General Fund	Percent Change
A	1988	$ -	NA
A	1989	$ -	NA
A	1990	$ -	NA
A	1991	$ -	NA
A	1992	$ 1.587	NA
A	1993	$ 3.131	97.29%
A	1994	$ -	-100.00%
A	1995	$ -	NA
A	1996	$ 6.580	NA
A	1997	$ 6.562	-0.27%
A	1998	$ 6.200	-5.52%
F	**1999**	**$ 6.138**	**-1.00%**
F	**2000**	**$ 6.077**	**-0.99%**
F	**2001**	**$ 6.016**	**-1.00%**



The fee was initially enacted with HB93 of the 1991 legislative session. The fee was applicable first to fiscal 1992 at a rate of $1 per bed day. The fee was raised to $2 per bed day for fiscal 1993. At that time "bed day" included only those days reimbursed by a third-party payer (e.g., a private or public insurer, or public assistance program). Specifically excluded were bed days paid for by the resident, a friend of the resident, or a family member of the resident. HB93 also provided for disposition of all revenue to the General Fund.

HB333 (1993) applied the fee to all bed days "regardless of the source of payment" effective fiscal 1994. That bill also set the fee at $2 for fiscal 1994 and $2.80 for fiscal 1995, and changed the distribution of the funds from the General Fund to the nursing facilities fee state special revenue account for fiscal years 1994 and 1995. SB83 (1995) set the fee at $2.80 without reference to any particular fiscal year(s), and returned disposition of the collections to the General Fund beginning with fiscal 1996.

Forecast Methodology and Projection Calculation

Nursing facility utilization fee collections are determined by the number of bed days realized in any fiscal year, and the fee per bed day. The current fee of $2.80 is constant under current law, and is not expected to change over the forecast period.

However, several different current trends and factors will influence the number of bed days utilized in coming years. Collections from this source peaked in fiscal 1996; collections declined slightly in fiscal 1997, but dropped 5.52% in fiscal 1998.

This downward trend in collections is anticipated to continue due to current trends in elder care. There are now several alternatives to nursing home care for Montana's elderly population. These include personal care facilities, such as the Waterford and Hunter's Point complexes built recently in the Helena area, that provide assisted care services; community-based and home-based living quarters that provide elder care under the auspices of home health agencies; adult foster homes that provide care for up to four elderly persons; and new, modern retirement homes and communities.

The advent of these alternatives has provided living opportunities for Montana's elderly population other than traditional nursing homes. This has resulted in a continual reduction in nursing home occupancy rates to the point where occupancy rates in nursing homes today are at an all time low according to Department of Health and Human Services.

It is anticipated that nursing home occupancy rates, and associated utilization fees, will continue to decline in the future, until at some point collections will stabilize. However, collections are anticipated to continue to decline in each fiscal year through the next biennium.

There is some evidence of this occurring already in fiscal 1999. Collections through September of fiscal 1999 total $1,519,528. Compared to collections of $1,534,182 through September of fiscal 1998. This represents a 1% drop.

Table 2 shows historic and forecast proxy bed days for the period fiscal 1992 through 2001, the tax rate in effect during this period, and the historic and forecast collections to the General Fund.

Table 2
Bed Days, Tax Rate, and Total Collections

FY	Proxy Bed Days		Tax Rate		Total Collections	---- % Change ---- Bed Days	---- % Change ---- Collections
A 1992	1,587,432	x	$1.00	=	$1,587,432	n.a.	n.a.
A 1993	1,565,666	x	$2.00	=	$3,131,331	1.37%	97.26%
A 1994	2,369,916	x	$2.00	=	$4,739,832	51.37%	51.37%
A 1995	2,272,992	x	$2.80	=	$6,364,377	-4.09%	34.27%
A 1996	2,349,864	x	$2.80	=	$6,579,620	3.38%	3.38%
A 1997	2,343,731	x	$2.80	=	$6,562,448	-0.26%	-0.26%
A 1998	2,214,433	x	$2.80	=	$6,200,413	-5.52%	-5.52%
F 1999	**2,192,289**	**x**	**$2.80**	**=**	**$6,138,409**	**-1.00%**	**-1.00%**
F 2000	**2,170,366**	**x**	**$2.80**	**=**	**$6,077,025**	**-1.00%**	**-1.00%**
F 2001	**2,148,662**	**x**	**$2.80**	**=**	**$6,016,255**	**-1.00%**	**-1.00%**

Proxy bed days, which are total SBAS collections divided by the tax rate, increased substantially in fiscal 1994 with the application of the tax to all bed days "regardless of the source of payment". Since then, proxy bed days have declined in every fiscal year, with the one exception of fiscal 1996.

Based on the decline in collections through September of fiscal 1999 relative to September of fiscal 1998, bed days are forecast to decline by 1% per year over the forecast period. This translates directly into a decrease in collections of 1% per year also, producing the forecast revenues of $6.138 million in fiscal 1999, $6.077 million in fiscal 2000, and $6.016 million in fiscal 2001.

Supporting Documentation

In developing this revenue estimate, a great deal of time was spent discussing the future direction of nursing facility fee revenue with personnel in the Department of Public Health and Human Services. In all, six different professionals working in the elderly health care delivery sector were consulted to obtain their professional

opinions regarding nursing facility revenues. They all expressed the opinion that the current declining trend in these revenues will continue at least over the course of the forecast period.

Again, these opinions were based on the current rapid expansion of alternative living arrangements for the elderly. Nursing facility utilization fees apply only to facilities that are certified by the federal government as being "nursing facilities." None of the alternative living arrangements, including personal or assisted care facilities, adult foster homes, home and community based services, or retirement homes meet this qualification.

In developing the forecast for this revenue source, the following information, drawn from documents provided by DPHHS, was taken into consideration:

- the number of personal care facilities has increased from 26 in 1992 to 105 in 1998, an increase of 304%;
- the number of beds in personal care facilities has increased from 599 in 1992 to 2,231 in 1998, an increase of 272%;
- the number of recipients of home and community based services has increased from 691 in 1993 to 1,363 in 1998, an increase of 97%;
- the number of adult foster homes has increased from 83 in 1995 to 116 in 1998, an increase of 40%.
- the number of patient bed days in nursing facilities has declined from 2,358,404 in 1996 to 2,231,954 in 1998, a decrease of 5.4%;
- the occupancy rate of nursing homes has declined from 88.3% in 1996 to 85% in 1998.

The assumption underlying this revenue forecast is that these trends have not run their course, and will continue over the forecast period.

Data Sources

Data sources used in this revenue estimate include SBAS 635 data on collections by month and fiscal year end for revenue class 0517; information from DPHHS pertaining to lists of nursing facilities and trends in alternative care facilities; and reports from internal systems maintained by personnel in the Compliance, Valuation, and Resolution process of the Department of Revenue.

FEDERAL MINERAL ROYALTIES

General Fund Revenue Estimate

Revenue Description

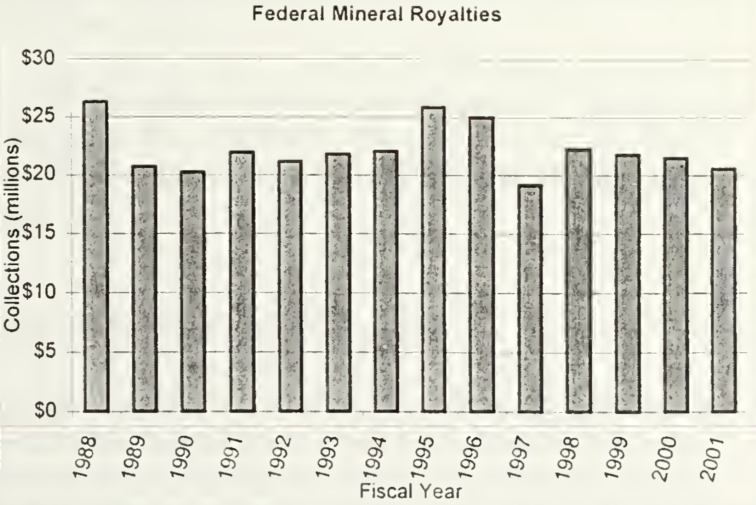
Federal Mineral Royalties are payments received by the state from the federal government from mineral mining activity occurring on leased federal lands in the state. The State of Montana receives the following types of royalty payments: coal royalties, oil royalties, natural gas royalties, minimum royalties, bonus payments, and rents. The federal government distributes 50% of all mineral royalties it receives back to the states where the mining activity originates. All Federal Mineral Royalties received by the state are deposited to the General Fund.

Historical and Projected Revenue

Since fiscal 1988, Federal Mineral Royalties have been relatively steady around the $20 million per year. However, a slight decline is projected due to decreases in mineral production and exploration, as well as continued low coal, oil, and natural gas prices over the forecast period. Table 1 shows the historical and projected Federal Mineral Royalty payments to the State of Montana.

Table 1
U.S. Federal Mineral Royalties
General Fund Collections
(millions)

	Fiscal Year	General Fund	Percent Change
A	1988	$ 26.328	NA
A	1989	$ 20.727	-21.27%
A	1990	$ 20.241	-2.35%
A	1991	$ 21.928	8.34%
A	1992	$ 21.150	-3.55%
A	1993	$ 21.800	3.07%
A	1994	$ 22.052	1.16%
A	1995	$ 25.848	17.21%
A	1996	$ 24.959	-3.44%
A	1997	$ 19.161	-23.23%
A	1998	$ 22.241	16.07%
F	**1999**	**$ 21.790**	**-2.03%**
F	**2000**	**$ 21.474**	**-1.45%**
F	**2001**	**$ 20.566**	**-4.23%**



Forecast Methodology and Projection Calculation

There are several major parts to estimating Federal Mineral Royalty revenues: 1) estimation of mineral (coal, oil, and natural gas) production on federal leases, 2) estimation of mineral prices, 3) determination of value, and 4) estimation of rents, bonuses, and minimum royalties, and 5) calculation of total royalty payments and allocation to the state.

Estimating Mineral Production

Coal production estimates on federal leases were obtained from the survey of coal producers conducted by the Legislative Finance Division. In addition to total production estimates, each producer indicated the percent of coal from a federal lease, as well as a federal royalty rate for that coal.

Because oil and natural gas producers are much more numerous than coal producers, the survey method is not practical. Therefore, oil and natural gas production is determined quite differently. The actual volume of oil and natural gas produced from federal leases in Montana in the prior year is increased or decreased in accordance with the same overall growth/decline used to estimate oil and natural gas production for the Combined Oil and Gas Severance Tax.

Estimating Mineral Price

Coal prices were determined by taking actual Freight-On-Board coal prices by company for the most recent year available from Coal Gross Proceeds Tax returns. Next, the prices were adjusted for changes in national coal prices over the forecast period using Wharton Econometric's estimates (same as method used for Contract Sales Price estimated for the Coal Severance Tax).

Oil and natural gas prices were also estimated by taking the latest actual prices for federal lease production in Montana, and adjusting them for the same price increases or decreases used for the Combined Oil and Gas Severance Tax (also Wharton Econometric's forecasts).

Estimating Royalty Payments from coal, oil, and natural gas

For each mineral, total *federal* royalties are calculated by multiplying estimated federal lease production times estimated federal price, times the federal royalty rate. Federal royalty rates for each active coal company are known, therefore the actual rate was used in the estimate. For both oil and natural gas, the average federal royalty rate for the last five calendar years is used as the estimate for royalty rates over the forecast period.

Table 2 shows the historical and projected production, average price, and royalty rates for coal, oil, and natural gas.

Table 2

Estimated Coal, Oil, and Natural Gas Production, Price, and Royalty Rate
Calendar Years 1996 - 2001

	Year	Production	Price	Avg. Royalty Rate	Gross Value	50% State GF Share
				COAL		
A	CY96	24,567,477	$10.49	12.39%	$257,671,919	$15,959,078
A	CY97	24,172,003	$10.55	12.50%	$254,987,148	$15,936,697
F	CY98	25,793,000	$9.88	12.38%	$254,782,339	$15,774,960
F	CY99	24,718,000	$10.36	12.50%	$256,050,333	$16,003,146
F	CY00	23,930,000	$10.22	12.37%	$244,542,527	$15,130,991
F	CY01	22,558,000	$10.04	12.50%	$226,557,688	$14,159,855
				OIL		
A	CY96	2,845,614	$17.04	10.83%	$48,490,033	$2,626,574
A	CY97	2,941,095	$16.83	11.18%	$49,510,362	$2,767,828
F	CY98	2,798,746	$12.73	10.98%	$35,625,231	$1,956,515
F	CY99	2,691,274	$13.59	11.01%	$36,580,550	$2,014,045
F	CY00	2,587,929	$15.45	11.03%	$39,986,035	$2,205,287
F	CY01	2,495,023	$16.01	11.01%	$39,957,170	$2,199,242
				NATURAL GAS		
A	CY96	13,976,481	$1.76	12.16%	$24,641,406	$1,498,071
A	CY97	12,360,305	$2.10	12.15%	$25,926,942	$1,574,907
F	CY98	12,319,516	$2.09	12.34%	$25,756,107	$1,589,155
F	CY99	12,034,935	$2.04	12.33%	$24,579,918	$1,514,900
F	CY00	11;832,748	$2.01	12.29%	$23,760,970	$1,459,536
F	CY01	11,607,926	$1.97	12.25%	$22,866,631	$1,400,793

Estimating Miscellaneous Payments (Minimum Royalties. Bonuses, and Rents)

There are three types of miscellaneous royalty payments: 1) bonuses, 2) minimum royalties, and 3) rents. Bonuses are the bids, or premiums paid by a producer when acquiring rights to mine minerals on a particular federal lease. Minimum royalties are payments to the federal government by a leaseholder who has not yet begun production in lieu of regular royalty payments. Rents are annual payments (on a per acre basis) to the federal government by a producer to retain the rights to the mineral lease. A five-year rolling average value was used for all three categories of miscellaneous payments over the forecast period.

Table 3 shows 100% of the rents, minimum royalty and bonuses for calendar year 1993 – 2001.

Table 3

Federal Mineral Payments for Rents, Minimum Royalty and Bonus

Calendar Years 1993 - 2001

	Year	Rents	Minimum Royalty	Bonus
A	CY93	$1,140,873	$1,892,348	$91,713
A	CY94	$766,029	$6,321,938	$304,695
A	CY95	$1,119,851	$664,041	$494,742
A	CY96	$1,745,108	$377,455	$1,003,322
A	CY97	$2,032,716	$4,009,400	$939,291
F	CY98	$1,360,915	$2,653,036	$566,752
F	CY99	$1,404,924	$2,805,174	$661,760
F	CY00	$1,532,703	$2,101,821	$733,173
F	CY01	$1,615,273	$2,389,377	$780,860

Summary

As shown in Table 4, Federal Mineral Royalties are expected to be $21.790 million in Fiscal 1999, $21.474 million in Fiscal 2000, and $20.566 million in Fiscal 2001. Estimated collections are declining because mineral production and prices, except for oil, are also projected to decline over the forecast period. The projections are estimated on a calendar year basis, and then allocated to fiscal years on a 50% split.

Table 4
Estimated Federal Mineral Royalty Payments
Fiscal Years 1999 - 2001

Description	FY 1999	FY 2000	FY 2001
Coal	$15,889,053	$15,567,069	$14,645,423
Oil	1,985,280	2,109,666	2,202,265
Natural Gas	1,552,028	1,487,218	1,430,165
Rents	691,460	734,407	786,994
Minimum Royalties	1,394,553	1,226,749	1,122,800
Bonus	307,128	348,734	378,509
TOTAL	$21,789,501	$21,473,842	$20,566,155

Data Sources

Base coal production data used in this estimate was taken from the survey of production estimates provided by the currently operating coal companies. Coal price data was taken from prior year Coal Gross Proceeds Tax returns, as well as from Wharton Econometric's U.S. Economic Outlook .

Oil and natural gas federal production and miscellaneous payment data were taken from Mineral Revenues (1988-1996), published by the U.S. Department of the Interior, Minerals Management Service. Oil and natural gas price estimates were also obtained from Wharton Econometric's, U.S. Economic Outlook.

Combined Oil and Natural Gas Production Tax

General Fund Revenue Estimate

Revenue Description

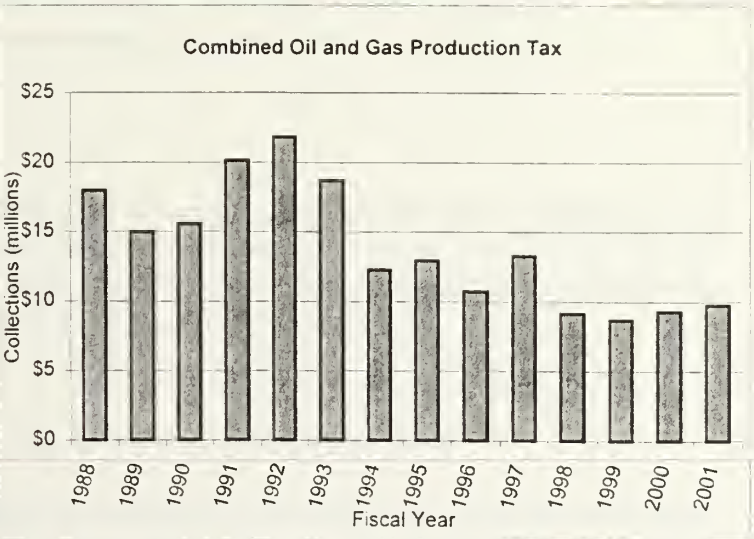
Section 15-36-304, Montana Code Annotated imposes a severance tax on oil and natural gas production in Montana. Enacted during the 1995 legislative session, the combined severance tax replaces several former state and local severance and net proceeds taxes. Tax rates are based on production types, with incentives for new, horizontal, secondary, tertiary, and stripper production. Revenues are distributed to a variety of both state and local accounts, on average approximately 26% of total revenues are distributed to the General Fund.

Historical and Projected Revenue

Since fiscal 1988, General Fund revenues from oil and gas severance taxes have been somewhat volatile, from a low of $9.12 million in fiscal 1998, to a high of $21.823 million in fiscal 1992 (included a $4.539 million revenue accrual). Table 1 shows the historical and projected General Fund oil and gas severance tax collections to the State of Montana.

Table 1
Combined Oil and Gas Production Tax
General Fund Collections
(millions)

	Fiscal Year	General Fund	Percent Change
A	1988	$ 17.976	NA
A	1989	$ 14.959	-16.78%
A	1990	$ 15.567	4.06%
A	1991	$ 20.163	29.52%
A	1992	$ 21.823	8.23%
A	1993	$ 18.677	-14.42%
A	1994	$ 12.289	-34.20%
A	1995	$ 12.964	5.49%
A	1996	$ 10.725	-17.27%
A	1997	$ 13.283	23.85%
A	1998	$ 9.120	-31.34%
F	**1999**	**$ 8.672**	**-4.91%**
F	**2000**	**$ 9.280**	**7.01%**
F	**2001**	**$ 9.735**	**4.90%**



Forecast Methodology and Projection Calculation

Estimating future oil and natural gas severance tax collections is accomplished by 1) estimating production by type, 2) estimating price, 3) calculating taxable value and tax liability by production type, and 4) allocating the revenue to the appropriate accounts.

Estimating Production

Calendar year 1997 actual production by type was used as the base data for the projection for both oil and natural gas. Production types were consolidated into 4 groups: 1) oil produced from pre-1985 wells, 2) oil produced from post-1985 wells, 3) natural gas produced from pre-1985 wells, and 4) natural gas produced from post-1985 wells. Production decline/growth rates were applied to the 1997 base production in each type to obtain estimates of future production. Table 2 shows the production growth (or decline) rates used for each type to estimate production.

Table 2
Combined Oil and Natural Gas Production Tax
Assumed Growth (Decline) Rates of Production
CY 1988 - 2001

Production Type/Group	CY98	CY99	CY00	CY01
Post-1985 Natural Gas	5.00%	0.00%	2.00%	1.00%
Pre-1985 Natural Gas	-5.00%	-5.00%	-5.00%	-5.00%
Post-1985 Oil	0.00%	2.00%	2.00%	2.00%
Pre-1985 Oil	-8.00%	-8.00%	-8.00%	-8.00%

Estimating Price

Calendar year 1997 oil and natural gas actual prices by production type were used as the base data for prices over the forecast period. These 1997 prices were adjusted annually (either up or down) based upon changes in estimated national oil and natural gas prices as forecast by Wharton Econometrics.

Estimating Taxable Value and Tax Liability by Production Type

The estimated taxable production is multiplied by the estimated price for each type of oil and natural gas production to yield taxable value. The appropriate tax rate is then applied to the taxable value of each production type to obtain total tax liability.

The various production types and their associated tax rates are shown in Table 3 below. Calendar year tax liability is converted to fiscal year liability based on a 50% split (a fiscal year is comprised of 3rd and 4th quarters of a calendar year and the 1st and 2nd quarters of the next calendar year).

Table 3
Combined Oil and Natural Gas Production Tax
Tax Rate by Production Type

Production Type	Royalty Tax Rate	Working Interest Tax Rate
Natural Gas		
NEW VERTICAL 0-12 MTHS	15.10%	0.80%
NEW VERTICAL 12-24 MTHS	15.10%	12.80%
POST 85 REGULAR	15.10%	15.45%
POST 85 STRIPPER	15.10%	11.00%
PRE 85 REGULAR	15.10%	18.85%
PRE 85 STRIPPER	15.10%	11.00%
Oil		
HORIZONTAL 0-18 MTHS	5.80%	0.80%
HORIZONTAL 18-24 MTHS	12.80%	7.80%
HORIZONTAL REGULAR	12.80%	12.80%
NEW VERTICAL 0-12 MTHS	15.10%	0.80%
NEW VERITICAL 12-24 MTHS	15.10%	7.80%
SECONDARY POST 85 INCR	10.80%	8.80%
TERTIARY POST 85 INCR	9.80%	6.10%
POST 85 REGULAR	15.10%	12.80%
POST 85 STRIPPER	15.10%	10.80%
SECONDARY PRE 85 INCR	16.30%	8.80%
PRE 85 REGULAR	17.20%	17.20%
PRE 85 STRIPPER	17.20%	10.80%

Summary

Estimated collections are expected to decline in fiscal 1999, because of low oil prices and continued production declines. General Fund revenues from oil and natural gas production will be at a all-time low in Fiscal 1999. However, revenues will increase slightly as prices are forecast to increase in fiscal 2000 and 2001. There is currently a glut of oil on the global market. As long as this condition exists, oil prices will remain relatively low. However, if the world oil supply sharply decreases, and or demand increases, Montana can expect increased revenues due to increased levels of new production and increased prices.

Data Sources

Base oil and natural gas production data used in this estimate was taken from summaries of Calendar Year 1997 tax returns. Growth (and decline) rates were derived by analyzing recent changes in Montana production by type, as well as estimates of national production trends. Oil and natural gas price estimates were obtained from Wharton Econometric's, U.S. Economic Outlook.

COAL SEVERANCE TAX
General Fund Revenue Estimate

Revenue Description

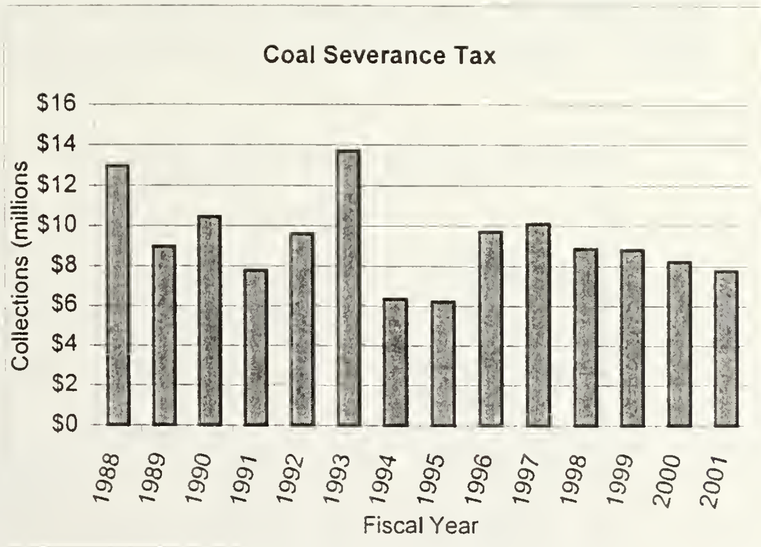
Section, 15-35-103 MCA, imposes a severance tax on the production of coal in Montana. Coal with Btu (British Thermal Unit) content greater than 7,000 is taxed at 15% of value, while coal with Btu content less than 7,000 is taxed at 10% of value. Each coal producer receives a 20,000-ton per year exemption from the tax. The value of coal for tax purposes is determined by multiplying the taxable production times the contract sale price. The contract sales price is not necessarily the price for which the coal is sold, but is rather a calculated figure which removes certain other taxes and royalties from the determination of value. The first 2 million tons of coal used by a producer as feedstock in a coal enhancement facility is exempt from taxation under 15-35-103 MCA. Coal Severance Tax revenues are distributed to variety of accounts, with 50% going to the Coal Permanent Trust Fund, and 25.25% to the General Fund.

Historical and Projected Revenue

Table 1 shows historic and projected collections from this revenue source over the period fiscal years 1988 through 2001.

Table 1
Coal Severance Tax
General Fund Collections
(millions)

	Fiscal Year	General Fund	Percent Change
A	1988	$ 12.962	NA
A	1989	$ 8.969	-30.81%
A	1990	$ 10.445	16.46%
A	1991	$ 7.765	-25.66%
A	1992	$ 9.609	23.75%
A	1993	$ 13.700	42.57%
A	1994	$ 6.351	-53.64%
A	1995	$ 6.220	-2.06%
A	1996	$ 9.714	56.17%
A	1997	$ 10.111	4.09%
A	1998	$ 8.849	-12.48%
F	**1999**	**$ 8.799**	**-0.57%**
F	**2000**	**$ 8.219**	**-6.59%**
F	**2001**	**$ 7.768**	**-5.49%**



Forecast Methodology and Projection Calculation

There are several major parts to estimating Coal Severance Tax revenues: 1) estimation of production, 2) estimation of price, 3) determination of value, and 4) calculation of tax and addition of any audit collections.

Estimating Coal Production

The Legislative Fiscal Division surveyed coal producers in Montana to determine their estimated coal production over the forecast period and shared the results with the Montana Department of Revenue. The companies reported their estimated production of coal over the forecast period. These company estimates were used as the base production data for projecting tax revenues. Furthermore, the production estimates for fiscal 1999 and beyond for two producers were increased by 5% to account for sales of coal on the open or "spot" market. Finally, the 20,000-ton annual exemption, as well as estimated feedstock production used in enhancement projects is deducted to yield taxable production.

Estimating Coal Price

Calendar year 1997 actual contract sales price by company (from tax returns) is used as the base prices for the estimation. The calendar 1997 base prices for each company are adjusted according to changes in national coal prices as projected by Wharton Econometric Forecasting Associates (WEFA). The WEFA price estimates were as of September 1998.

Estimating Coal Value

Once taxable production and price are determined, the calculation of taxable value is completed by multiplying taxable production times price, by company. Table 2 shows the calculation of taxable value.

Table 2
Coal Production, Price, and Value

Year	Taxable Production (tons)		Contract Sales Avg Price/ton		Taxable Value
A FY97	33,158,471	x	$7.49	=	$248,290,926
A FY98	35,501,422	x	$6.78	=	$240,550,269
			Forecast		
F FY99	32,785,097	x	$6.50	=	$212,999,060
F FY00	32,875,543	x	$6.62	=	$217,731,791
F FY01	30,568,799	x	$6.67	=	$203,940,442

Estimating Coal Severance Tax Collections

The taxable of value of coal production by company is multiplied by the appropriate tax rate (either 10% or 15%, depending on Btu content of the coal) to yield severance tax liability. Estimated audit collections (includes only those which are very near to actually being collected) are then added to obtain fiscal year Coal Severance Tax collections. Total collections are multiplied by the General Fund percentage of .2525 (or .2549 beginning in Fiscal 2000) to arrive at the General Fund revenue estimate.

Table 3
Estimate Coal Severance Tax Collections
Fiscal Years 1999 - 2001

	Fiscal 1999	Fiscal 2000	Fiscal 2001
Taxable Value	$ 212.999	$ 217.732	$ 203.940
Average Tax Rate	x .1495	x .1495	x .1495
Total Tax	$ 31.851	$ 32.551	$ 30.475
Audit Collection	$ 2.995	0.00	0.00
Total Collections	$ 34.846	$ 32.551	$ 30.475
General Fund %	x .2525	x .2525	x .2549
General Fund Revenue	$ 8.799	$ 8.219	$ 7.768

Summary

As shown in Table 3, Coal Severance Tax collections are estimated to be $34.847 million in fiscal 1999, $32.551 million in fiscal 2000, and $30.475 in fiscal 2001. Production and revenue are expected to decline over the forecast period. Given the continuation of current market conditions, one of the currently operating mines anticipates ceasing operation during calendar year 2000.

Data Sources

Base production data used in this estimate was taken from the survey of production estimates provided by the currently operating coal companies. The feedstock enhancement exemption was estimated using prior years' tax return data.

Base price data was taken from prior year tax returns by company. These company specific prices were then adjusted by changes in estimates of national coal prices provided by Wharton Econometric Forecasting Associates (WEFA).

ELECTRIC ENERGY PRODUCERS' LICENSE TAX
General Fund Revenue Estimate

Revenue Description

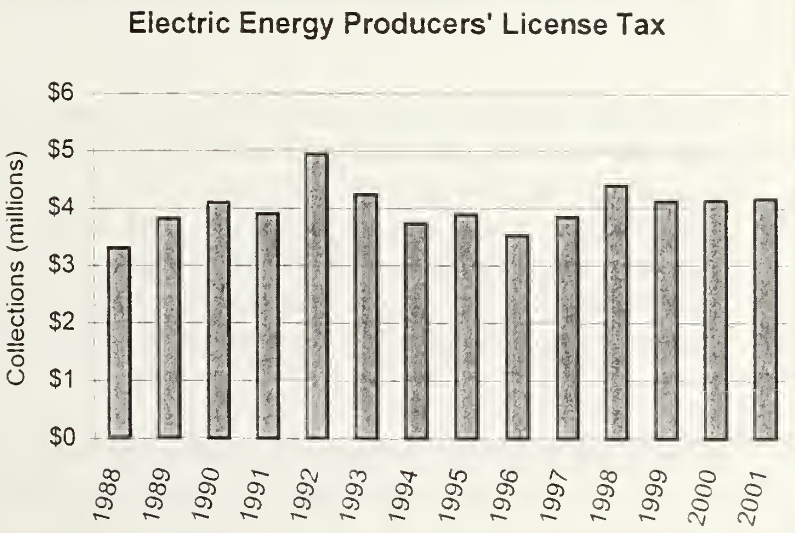
Title 15, Chapter 51 provides for the imposition and collection of the electric energy producers' license tax. Enacted in 1933, the tax currently is levied at a rate of $0.0002 per kilowatt hour on all electricity generated, manufactured, or produced in Montana for barter, sale, or exchange, other than for plant use. Returns showing energy production, accompanied with payment of tax, are due within 30 days following the end of each calendar quarter. Taxes not paid on the due date are delinquent and subject to a penalty of 10%, and interest at the rate of 1% per month. This tax is remitted 100% to the General Fund.

Historical and Projected Revenue

Table 1 shows historic and forecast collections for this revenue source. Collections in fiscal year 1992 reflect a one-time accrual adjustment of $809,000. Generally, this tax is relatively stable, fluctuating with producers' contractual arrangements, and weather conditions, including spring water flows. In Montana, generation facilities include hydroelectric facilities owned by the Montana Power Company and other utilities, and the four coal-fired generation units at Colstrip. A smaller amount of electricity is also provided by qualifying facilities (QFs), or cogenerators.

Table 1
Electric Energy Producers' License Tax
General Fund Revenues
(millions)

	Fiscal Year	General Fund	Percent Change
A	1988	$ 3.311	NA
A	1989	$ 3.816	15.25%
A	1990	$ 4.101	7.47%
A	1991	$ 3.906	-4.75%
A	1992	$ 4.938	26.42%
A	1993	$ 4.232	-14.30%
A	1994	$ 3.728	-11.91%
A	1995	$ 3.886	4.24%
A	1996	$ 3.520	-9.42%
A	1997	$ 3.849	9.35%
A	1998	$ 4.402	14.37%
F	**1999**	**$ 4.126**	-6.27%
F	**2000**	**$ 4.146**	0.48%
F	**2001**	**$ 4.171**	0.60%



Forecast Methodology and Projected Calculation

Generally, collections from this revenue source are a function of the amount of taxable kilowatts generated in a given tax year. The gross tax due is the product of this generation and the tax rate. Adjustments to the gross tax due, including differential credits, penalty and interest, accruals and other SBAS accounting adjustments (refunds, e.g.), result in net SBAS General Fund revenues.

Taxable Kilowatt Hours

Historically, a forecast of taxable kwh has been provided by surveying the electric energy producer's in the state to obtain their individual forecasts of kilowatt hours that will be generated. This survey was conducted most recently in the fall of 1998, and produced a forecast 22,883,805,000 kwh in calendar year 1999; 22,969,705,000 kwh in calendar year 2000; and 23,177,981,000 kwh in calendar year 2001.

However, recent changes in the industry that may significantly affect the future supply of electric energy has made these forecast amounts questionable. In particular, following passage of SB390 in the 1997 legislative session, which provided for deregulation of the electric industry in Montana, the Montana Power Company (MPC) announced that it would sell all of it's generation facilities, including all of it's hydroelectric facilities and it's share of the Colstrip generating units. Since then, Portland General Electric (PGE) and Puget Sound Electric (PSE) have also announced their plans to join MPC in selling their share of these generating units as well. This means approximately three-quarters of all generation capacity in the state is currently for sale, with the sale expected to be consummated late in 1999. While it is anticipated that this sale will entail the transfer of some associated long-term contracts, there is no means of ascertaining the plans of the purchaser(s) of these facilities, regarding increasing or decreasing the amount of energy generated. This brings into question the usefulness of the specific kilowatt-hour forecast of the current facility owners.

To control for the uncertainty in the current producer's survey results, and also to control for average weather conditions, the current forecast assumes that over the course of the next few years demand for electricity will remain fairly stable and require production at levels representative of the past several years. The forecast of taxable kilowatt hours for fiscal years 1999, 2000, and 2001 is the average number of taxable kilowatt hours over the 7-year period fiscal 1992 to fiscal 1998. Compared to using the survey results, this produces a slightly more conservative forecast.

Table 2, on the next page, shows the information used to develop the current forecast of electric energy producer's license tax revenues.

Gross Tax Due

Gross tax due in each of the forecast years is simply the product of taxable kilowatt hours and the tax rate of $0.0002 per kilowatt hour.

Table 2
Forcast of Electric Energy Producers' License Tax

FY	Taxable Kwh	Gross Tax Due	Differential Credits	Penalty and Interest	Accrual and Other SBAS Adjustments	Net SBAS Collections
1992	21,801,377,214	4,360,276	(301,124)	0	878,358	4,937,510
1993	21,141,635,189	4,367,860	(241,328)	1,667	104,001	4,232,200
1994	19,838,250,746	3,986,653	(296,272)	0	37,984	3,728,365
1995	21,079,117,839	4,215,824	(308,263)	0	(21,651)	3,885,910
1996	18,442,809,430	3,858,526	(338,119)	0	0	3,520,407
1997	20,160,222,984	4,032,045	(209,782)	0	26,789	3,849,052
1998	22,014,513,601	4,388,330	(98,827)	16	112,209	4,401,728
1999	20,639,703,858	4,127,941	(45,000)	0	43,222	4,126,163
2000	20,639,703,858	4,127,941	(25,000)	0	43,222	4,146,163
2001	20,639,703,858	4,127,941	0	0	43,222	4,171,163

Differential Credits

Beginning in the mid-1970's, partially in response to the energy crises of that era, the state authorized public utilities to install in customers' dwellings energy conservation materials and appliances. The utilities were allowed to recoup the cost of these installations from the customers through the repayment of loans at subsidized interest rates. In turn, the utilities were allowed to take as a credit against either their electric energy producers' license tax or their corporation license tax, the difference between the interest they received on the loan and the amount they would have received had the loan been made at prevailing home improvement interest rates.

These credits averaged roughly $300,000 per year through fiscal 1996. However, these credits have been repealed for installations made after July 1, 1995 and are beginning to disappear. As the table shows, the actual credit amount has dropped from $338,000 in fiscal 1996 to $210,000 in fiscal 1997 and to $99,000 in fiscal 1998. The forecast continues this decline by about 50% per year until the credit amount reaches zero in fiscal 2001.

Penalty, Interest and Audits

As the table shows, there has been no significant penalty and interest associated with this tax for the past seven years. In addition, while there have been several audits of this tax in past years, these have not resulted in audit adjustments. Consequently, the forecast does not incorporate any adjustments for penalty, interest, or audits.

Accrual and Other SBAS Adjustments

Each year there are adjustment to the SBAS account to take into account accruals, refunds, and other adjustments. Not counting the one-time accrual of $809,000 in fiscal 1992, these adjustments have ranged from a negative $21,651 in fiscal 1995 to $112,209 in fiscal 1998. The forecast assumes SBAS adjustments equal to the average adjustment over the past six fiscal years, or an adjustment of about $43,000 each year over the forecast period.

Net Collections

Net Collections to the General Fund are calculated by subtracting differential credits from the gross tax due, and then adding any penalty and interest and SBAS adjustments. This results in the forecast of $4.126 million in fiscal 1999; $4.146 million in fiscal 2000; and $4.171 million in fiscal 2001.

Data Sources

Data used in this analysis include the following:

1) SBAS 635 reports, revenue class 0725, provide fiscal year end collections data.
2) Department of Revenue Report #R0720111, produced and provided by personnel in the Compliance, Valuation and Resolution (CVR) process of the Department of Revenue. This report provides detailed information by calendar quarter, and by producer. Information includes gross kilowatt hours produced, plant use, taxable kilowatts, tax due, differential credits, penalty and interest, and net tax paid. This information in confidential in nature, and not for public dissemination.
3) The annual survey of electricity producers, compiled in 1998 by the Legislative Fiscal Division, provides a forecast of production in future years.

LONG-RANGE BOND EXCESS

General Fund Revenue Estimate

Revenue Description

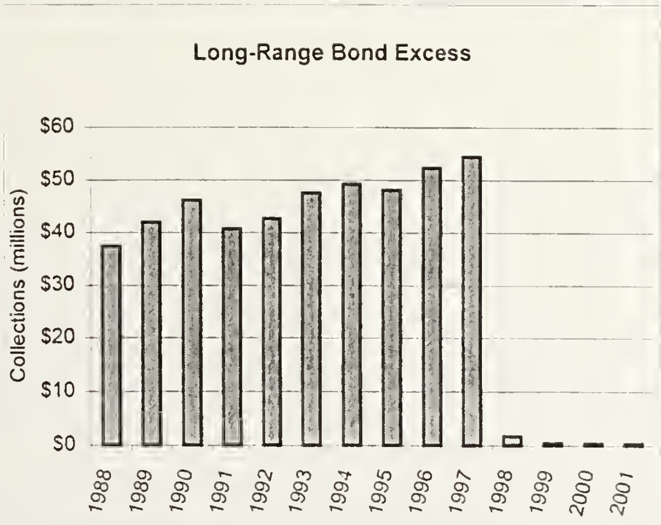
The long-range building program debt service account was created to service bonds issued for construction of state government buildings. A portion of income taxes, corporation license taxes, tobacco taxes and cigarette taxes were earmarked to flow through this account, although the revenue was scored as General Fund revenue. In 1997, legislation de-earmarked revenue flowing through the long-range building program debt service account and provided for direct disposition to the state General Fund. This had no impact on General Fund revenues, but today this revenue shows up under income tax, corporation tax, and cigarette and tobacco taxes, rather than long-range bond excess. However, HB5 (1997) provides that from fiscal 1998 to fiscal 2007, 1.3% of the coal severance tax must be allocated to the long-range bond account to fund the bonds issued for the purchase of the Virginia City and Nevada City property (MCA, 15-35-108). This revenue shows up as General Fund revenue.

Historic and Projected Revenue

Table 1 shows actual and projected General Fund collections over the period fiscal 1988 through fiscal 2001.

Table 1
Long-Range Bond Excess
General Fund Revenues
(millions)

	Fiscal Year	General Fund	Percent Change
A	1988	#####	NA
A	1989	#####	12.07%
A	1990	#####	9.97%
A	1991	#####	######
A	1992	#####	4.96%
A	1993	#####	11.49%
A	1994	#####	3.30%
A	1995	#####	-2.16%
A	1996	#####	8.76%
A	1997	#####	4.05%
A	1998	$1.746	######
F	**1999**	**$0.453**	######
F	**2000**	**$0.423**	-6.62%
F	**2001**	**$0.396**	-6.38%



Forecast Methodology and Projection Calculation

The method used to project long-range bond excess revenue involves calculating 1.3% of the coal severance tax projection as shown in Table 2.

Table 2
Forecast Coal Severance and Long-Range Bond Excess Revenue

	FY1999	FY2000	FY2001
Coal Severance Tax	$ 34,847,000	$ 32,551,000	$ 30,475,000
General Fund Percent	x .013	x .013	x .013
Long Range Bond	$ 453,000	$ 423,000	$ 396,000

Data Sources

The data used in this analysis is the projections of coal severance tax revenue.

METALLIFEROUS MINES LICENSE TAX

General Fund Revenue Estimate

Revenue Description

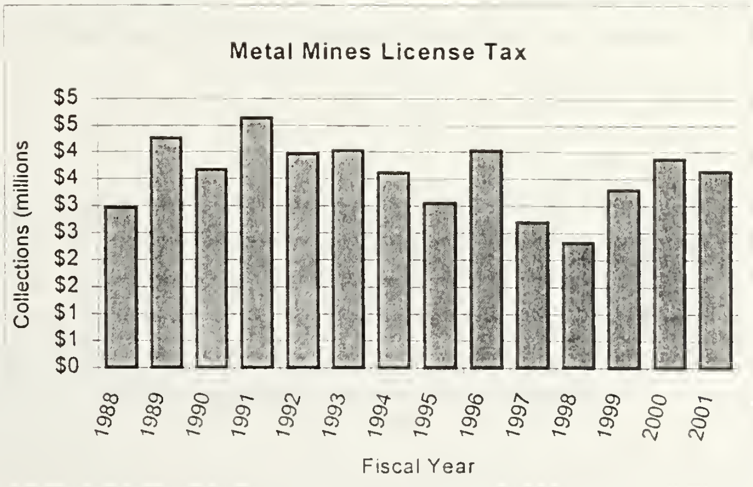
MCA 15-37-101 authorizes the Metal Mines License Tax on production of metals and gems mined in Montana. The annual tax is applied to the gross value of metal mine yield (total revenue received from the sale of extracted metals minus smelting/concentrating costs). The first $250,000 of gross value is exempt from taxation. This exemption essentially exempts all of the smaller mine operators from taxation. There are two tax rates for gross value beyond $250,000. These are 1.6% or 1.81% depending upon the form of metal produced (either dore or bullion). Revenue received from the tax is distributed as follows: 58% to the general fund, 1.5% Hard Rock Mining Trust Account, 8.5% to the Orphan Share Account, 2.2% to the Groundwater Assessment Account, 4.8% to the Reclamation and Development Program, and 25% to the Local Impact Account.

Historic and Projected Revenue

Table 1 presents historical and projected revenue collections for this revenue source for fiscal years 1988 to 2001. Metal Mines License Tax revenues have been declining throughout the 1990's. Fiscal 1998 collections were the lowest in the decade due to low gold prices coupled with one mining company filing for bankruptcy and delaying any payment of calendar year 1997 tax liability.

Table 1
Metal Mines License Tax
General Fund Collections
(millions)

	Fiscal Year	General Fund	Percent Change
A	1988	$ 2.962	NA
A	1989	$ 4.258	43.75%
A	1990	$ 3.665	-13.93%
A	1991	$ 4.639	26.58%
A	1992	$ 3.966	-14.51%
A	1993	$ 4.031	1.64%
A	1994	$ 3.610	-10.44%
A	1995	$ 3.050	-15.51%
A	1996	$ 4.030	32.13%
A	1997	$ 2.696	-33.10%
A	1998	$ 2.319	-13.98%
F	**1999**	**$ 3.290**	41.87%
F	**2000**	**$ 3.870**	17.63%
F	**2001**	**$ 3.640**	-5.94%



Forecast Methodology and Projection Calculation

Metal Mines License Tax revenues are estimated using four basic steps: 1) estimating production by metal type, 2) estimating price by metal type, 3) calculating gross value, and 4) determining the estimated tax by multiplying gross value times the tax rate.

Estimating Metal Production

The Department of Revenue and Legislative Finance Division jointly survey metals producers to report their estimated production by metal and by mine through calendar year 2002. The results obtained from the survey were used as the metal production estimates. The survey results appear reasonable given past production trends and current market conditions. The summarized results from the survey are shown in Table 2.

Table 2
Production by Metal

	Actual		Estimated		
Mineral	**CY96**	**CY97**	**CY98**	**CY99**	**CY00**
Gold (oz.)	270,130	286,491	283,777	277,952	230,028
Silver (oz.)	1,274,562	1,347,673	1,633,624	1,503,445	2,581,789
Copper (lbs.)	99,291,078	92,482,829	94,433,490	85,235,518	85,262,900
Platinum (oz.)	62,516	82,780	112,800	159,432	168,000
Palladium (oz.)	213,975	261,710	357,200	504,868	532,000
Rhodium (oz.)	0	0	1,500	1,500	1,500
Nickel (lbs.)	0	0	349,633	494,173	520,730
Molybdenum (lbs.)	10,881,085	9,689,797	10,209,000	9,252,000	9,252,000
Lead (lbs.)	8,832,610	14,792,171	15,732,000	15,992,000	7,576,000
Zinc (lbs.)	23,102,912	26,657,285	47,486,000	54,438,000	12,708,000

Estimating Metal Prices

Many international factors affect market prices of metals, making prices difficult to estimate. Cash and future prices of metals reported in the Wall Street Journal in October 1998 were used as price estimates over the forecast period. Gold, silver, copper, zinc, platinum, palladium, nickel, and lead price trends were also discussed with company officers to help verify the long-term accuracy of current market price estimates. Table 3 shows the metals price forecast used in the estimation.

Table 3
Price by Metal

Mineral	Actual		Projected		
	CY96	CY97	CY98	CY99	CY00
Gold (oz.)	$ 385.33	$ 313.94	$ 290.00	$ 307.40	$ 314.90
Silver (oz.)	$ 4.76	$ 4.50	$ 5.00	$ 5.26	$ 5.33
Copper (lbs.)	$ 0.86	$ 0.79	$ 0.73	$ 0.74	$ 0.76
Platinum (oz.)	$ 394.38	$ 388.33	$ 365.00	$ 351.00	$ 351.00
Palladium (oz.)	$ 127.28	$ 144.69	$ 285.00	$ 281.00	$ 281.00
Rhodium (oz.)	NA	NA	$ 500.00	$ 500.00	$ 500.00
Nickel (lbs.)	NA	NA	$ 3.00	$ 3.00	$ 3.00
Molybdenum (lbs.)	$ 3.17	$ 3.68	$ 3.75	$ 3.75	$ 3.75
Lead (lbs.)	$ 0.34	$ 0.26	$ 0.48	$ 0.48	$ 0.48
Zinc (lbs.)	$ 0.47	$ 0.61	$ 0.51	$ 0.51	$ 0.51

Gross Valuation of Metal Production

Once the production and price information is determined, the gross value of production is calculated by multiplying metal production by metal price. Producers are allowed to deduct certain refining costs from the gross value prior to tax determination. The average level of these costs were obtained from prior year tax returns and further discussions with company officials and were used to adjust gross value. Such refining and processing costs are proprietary and confidential and are, therefore, not shown. Table 4 shows the estimated gross value of production by metal over the forecast period.

Table 4
Gross Value by Metal
(millions)

Mineral	Actual		Projected		
	CY96	CY97	CY98	CY99	CY00
Gold	$ 104.09	$ 89.94	$ 82.30	$ 85.44	$ 72.44
Silver	6.07	6.06	8.17	7.91	13.76
Copper	85.39	73.06	68.94	63.29	64.93
Platinum	24.66	32.15	41.17	55.96	58.97
Palladium	27.23	37.87	101.80	141.87	149.49
Rhodium	NA	NA	0.75	0.75	0.75
Nickel	NA	NA	1.05	1.48	1.56
Molybdenum	34.49	35.66	38.28	34.70	34.70
Lead	3.00	3.85	7.47	7.60	3.60
Zinc	10.86	16.26	24.40	27.97	6.53
TOTAL	$ 295.79	$ 294.85	$ 374.33	$ 426.96	$ 406.72

Tax Calculation

Finally, the estimated tax is determined by multiplying gross value of production over $250,000 by the appropriate tax rate by company. The statutory tax rate is 1.60% or 1.81% depending on the form (dore, bullion, concentrates, etc.) of metal produced.

Summary

The revenue estimates are $3.290 million in fiscal 1999, $3.870 million in fiscal 2000, and $3.640 in fiscal 2001. The fiscal 1999 estimate increases 42% over fiscal 1998. Fiscal 2000 increases 18% over fiscal 1999 while fiscal 2001 estimates are a 6% decrease from fiscal 2000. Three metals (platinum, palladium, and zinc) have either a significant price or production change. The zinc production falls in fiscal 2000 to less than half of the calendar year 1997 production.

Data Sources

All production data used in this estimate came from each active substantial metal mining company in Montana (currently four active companies). Metal price data was taken from the Wall Street Journal, and compared with recent year tax return data as well as discussions with officers of the active mining companies.

GENERAL FUND OTHER REVENUE

General Fund Revenue Estimate

Revenue Description

Other revenue represents all of the sources of General Fund revenue that do not have an individual line item in the revenue estimating resolution. In fiscal 1998 there were 59 items of General Fund revenue included in other revenue, not counting the four items discussed in the next paragraph.

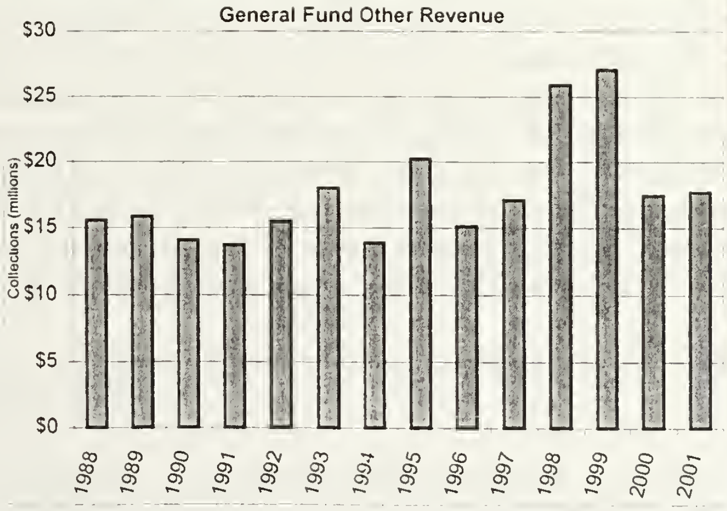
Agreement has been reached with the Legislative Fiscal Division (LFD), and the Revenue Oversight Committee (ROC) to provide for separate line item estimation for several items that previously were included in other revenue either by the LFD or the administration. These are: 1) *nursing facilities utilization fees*; 2) *public contractor's fees*; 3) *investment licenses and permits*; and 4) *highway patrol fines.*

Historical and Projected Revenue

Table 1 shows historic and projected collections from other General Fund revenue sources. As discussed earlier, these revenues have been adjusted to exclude the four items previously included in other revenue.

Table 1
General Fund Other Revenue
General Fund Revenues
(millions)

	Fiscal Year		General Fund	Percent Change
A	1988	$	15.558	NA
A	1989	$	15.835	1.78%
A	1990	$	14.097	-10.98%
A	1991	$	13.742	-2.52%
A	1992	$	15.466	12.55%
A	1993	$	17.994	16.35%
A	1994	$	13.903	-22.74%
A	1995	$	20.217	45.41%
A	1996	$	15.131	-25.16%
A	1997	$	17.089	12.94%
A	1998	$	25.913	51.64%
F	**1999**	**$**	**27.086**	**4.53%**
F	**2000**	**$**	**17.429**	**-35.65%**
F	**2001**	**$**	**17.706**	**1.59%**



Forecast Methodology and Projection Calculation

The forecast for General Fund collections from other revenue sources is done in two stages. Of the 59 items comprising this revenue source in fiscal 1998, 34 are examined individually in some detail. The remaining 25 items, which comprised a total of $262,497 in fiscal 1998, are forecast as a group.

Individually Forecast Items

As discussed above, 34 income items are examined in some detail to obtain a forecast of revenue from each item separately. These are then summed to get the total revenue for this group of items. Historic and forecast amounts for these items are shown on Table 2. Forecasts for these items are obtained using a variety of methods including general trending analyses, the application of an historic or general growth rate, discussions with state agency personnel, and professional judgement. Some of the more important items, or items with significant changes, are discussed below. Items not discussed generally are forecast by continuing a well defined trend over the historic period, or continuing the forecast at historic levels

Administrative fees increased by about half a million dollars in fiscal 1998 because the Judiciary switched the revenue stream from revenue class (RC) 1194, city/county cost recovery, to RC1000. The forecast continues administrative fees at this new level, adjusted for annual growth of 1 percent. Revenue class 1194 has a zero revenue estimate into the forecast period.

Liquor license transfers (RC3204) increased significantly above the historic level of around $1.5 to $1.6 million to $1.9 million in fiscal 1998 due to the issuance of new liquor licenses associated with SB354 (1997), the restaurant beer and wine legislation. Revenues in fiscal 1998 from these new licenses totaled $381,400. This represents a one-time collection from the issuance of initial applications for the licenses, and is not expected to continue in future years, as most of the restaurants desiring one have already applied for the initial licenses. Revenues are forecast to decline to more historic levels, with some continued growth that takes into account projections of additional application fees, license fees, and renewal fees associated with restaurant beer and wine licenses for fiscal years 1999, 2000, and 2001.

Vehicle licenses and permits (RC0405) are forecast to grow at a general growth rate of 2% per year over the forecast period.

SB125 (1997) changed the deposition of proceeds from the sale of unclaimed property (*escheated revenue*) from the common school trust fund to the General Fund, beginning with fiscal 1998. A total of $1,188,494 was deposited to the General Fund in fiscal 1998. (The figures shown for fiscal 1996 and 1997 are not

Table 2

Other Revenue - General Fund Revenue Estimate

Revenue Class		FY93	FY94	FY95	FY96	FY97	FY98	FY99	FY00	FY01
1000	Administrative Fees	1,745,336	1,889,604	1,932,732	1,737,298	1,957,583	2,494,817	2,519,765	2,544,963	2,570,412
1194	City/County Cost Recovery	424,098	496,415	497,722	521,463	531,973	0	0	0	0
3204	Liquor License Transfers	1,657,632	1,467,686	1,592,689	1,569,923	1,711,383	1,925,247	1,630,847	1,665,647	1,670,447
0405	Vehicle Licenses & Per - Gen.	n.a.	n.a.	n.a.	1,241,263	1,143,078	1,266,223	1,291,547	1,317,378	1,343,726
3030	Escheated Revenue	n.a.	n.a.	n.a.	844,561	1,053,795	1,188,494	1,338,494	1,488,494	1,638,494
3210	Transfers - In General	45,149	370,364	1,030,488	694,281	492,867	1,132,760	744,152	744,152	744,152
1199	Miscellaneous Service Fee	482,056	468,145	746,289	719,583	787,492	959,736	756,951	770,179	764,408
1150	SWCAP - IDC Recovery	401,263	513,518	603,835	491,153	572,452	780,482	592,288	592,288	592,288
0747	Payroll Tax	n.a.	n.a.	n.a.	n.a.	n.a.	688,076	500,000	250,000	0
1160	State Funds Cap Recovery	0	315,715	620,794	617,631	641,305	679,673	1,283,391	577,115	582,761
1050	Filing Fee	354,545	27,010	16,941	17,236	14,814	348,621	350,000	353,500	357,035
1197	Misc. Cost Recovery	836,530	276,338	3,728,583	474,522	3,107,585	340,920	1,647,738	2,861,211	2,851,854
1135	Emergency Tel. System Fee	n.a.	n.a.	n.a.	n.a.	n.a.	274,260	279,745	285,340	291,047
0515	Marriage Licenses	102,468	100,828	100,294	94,832	94,293	149,244	150,000	150,000	150,000
3280	Bond Proceeds	456,500	299,736	501,215	504,988	295,578	522,403	430,070	500,000	500,000
1345	Gains - Investment Transaction	n.a.	n.a.	n.a.	285,689	261,329	487,543	300,000	300,000	300,000
2800	Miscellaneous Receipts	606,506	366,309	271,784	507,212	290,419	247,269	300,000	300,000	300,000
2000	Documents Sold	229,803	221,305	304,999	223,623	286,696	238,382	243,150	248,013	252,973
4599	Misc. Fed Asst Gen	180,044	172,920	242,207	195,210	365,096	221,168	200,000	200,000	200,000
1599	Misc. Fines/Forfeitures	42,566	46,508	40,851	74,683	178,589	216,335	225,000	235,000	245,000
1525	Civil Penalty Fines	335,914	306,865	219,533	614,601	1,293,958	200,660	350,000	350,000	350,000
1105	Student Tuition and Fees	131,591	204,536	208,056	175,327	142,125	177,886	173,254	175,000	175,000
3281	Proceeds of Gen FA Dist	52,187	82,295	103,911	116,640	156,058	168,465	199,053	223,262	247,470
3283	Incept. of Inst. Purch. Cont	0	132,134	330,397	1,716,544	176,616	158,354	161,521	164,752	168,047
0705	Cement Tax	136,060	107,716	141,685	146,828	147,379	147,705	148,000	148,500	149,000
0810	Accommodations Tax	411,878	339,077	112,381	126,708	104,846	104,799	106,895	109,033	111,214
0145	Attorney License	74,620	80,100	81,995	84,976	88,440	91,675	94,000	97,000	100,000
1060	Inspection/Testing Fee	195,228	53,409	56,743	68,132	194,532	91,433	90,000	90,000	190,000
1701	Federal Indirect Cost Recovery	202,337	114,104	4,454,335	84,706	110,008	84,795	104,000	105,000	106,000
1540	Securities/Insurance Fines	85,037	517,404	42,468	118,673	295,042	72,577	200,000	75,000	150,000
0239	Health Lic. and Per Gen	523,233	91,626	132,756	122,153	118,183	67,024	68,364	69,732	71,126
0805	Property Taxes - General	401,753	347,826	30,382	299,177	50,834	47,591	250,000	70,000	150,000
2401	Rentals	89,062	54,459	61,344	66,340	64,828	43,825	61,743	59,084	59,184
1018	Intra-State Service	39,376	246,398	12,702	9,874	10,350	24,364	12,000	12,000	12,000
0380	Railroad Commission Lic & Per	1,548,391	1,221,639	1,273,351	10,160	8,395	8,135	8,000	8,000	8,000
	Sub-Total	$11,791,163	$10,931,989	$19,493,462	$14,575,990	$16,747,921	$15,650,941	$16,809,968	$17,139,643	$17,401,638

General Fund deposits, but are provided to show the trend in these collections.) These revenues grew about $150,000 per year on average from fiscal 1996 to fiscal 1998, and the forecast continues growth at this amount over the forecast period.

Transfers in general (RC3210) vary up and down significantly from year to year. The forecast amount for this source is the average over the 5-year period fiscal 1994 to 1998.

Miscellaneous service fees remained very stable over the period fiscal 1995 to 1997, then increased suddenly in fiscal 1998. The forecast treats fiscal 1998 as an outlier year, and returns the forecast amounts to the more historic levels of the 1995-1997 period.

Collections flowing to the statewide cost allocation plan - indirect cost recovery (*SWCAP-IDC Recovery, RC1150*) also increased in fiscal 1998. The forecast returns collections to a more historic base level.

HB166 required that amounts previously appropriated to the Department of Revenue for administration of the Old Fund Liability Tax (OFLT) and deposited into a state special revenue account, be instead deposited into the General Fund beginning in fiscal 1998. In fiscal 1998, a total of $688,076 was deposited in the General Fund from the *payroll tax* (RC0747). Of this amount, about $188,000 was a one-time occurrence according to DOR accounting staff. The forecast for fiscal 1999 is reduced by this amount to $500,000. Approximately $250,000 will be required to close administration of the OFLT in fiscal 2000. The revenue forecast for fiscal 2001 then drops to zero.

The forecast for *state funds cap recovery* for fiscal years 1999, 2000, and 2001 is taken directly from documentation supplied by personnel in the Management Support Bureau of the Department of Administration.

Filing fees, revenue class 1050, increased substantially in fiscal 1998. This is due to one of the provisions of HB170 (1997) that de-earmarked the share of district court fees previously used to fund the judge's retirement system and redirected this money to the General Fund. The forecast continues collections at roughly the fiscal 1998 level adjusted annually for growth of 1 percent.

HB188 (1997) provided for the issuance of $43 million in general obligation bonds to finance information technology projects such as MT PRRIME, MBARS, and the POINTS project in the Department of Revenue. Because all state agencies will benefit from these projects a portion of the debt service costs associated with the issuances of new bonds will be recovered through cost allocation plans. Based on information provided by personnel in the Management Support Bureau at the Department of Administration, this will increase General Fund collections above

normal levels by $2,506,518 in fiscal 2000 and by $2,490,067 in fiscal 2001. This revenue will be recorded in revenue class 1197, *miscellaneous cost recovery*.

HB166 (1997) provided that 7.48% of the money received from *9-1-1 emergency telephone fees* (RC1135) be deposited in the General Fund beginning fiscal 1998. A total of $274,260 was deposited in fiscal 1998. The forecast provides for growth at a rate of 2% per year over the forecast period.

HB170 (1997) provided that the portion of the fee for issuing a marriage license or filing a declaration of marriage without solemnization be increased from $14.00 to $23.60; also, the General Fund portion of the fee for filing a petition for dissolution of marriage or legal separation was increased from $40 to $75. This increased collections from *marriage license fees* (0515) by about 50% in fiscal 1998 from historic levels. The forecast continues collections at the new level established in fiscal 1998.

Overall, the above adjustments and individual forecasts provide for total collections from this component of other income of $16.810 million in fiscal 1999; $17.140 million in fiscal 2000, and $17.402 million in fiscal 2001. The individual revenue sources are shown in Table 2.

Revenue Sources Estimated as a Group

As discussed above, 25 separate items are estimated as a group. Table 3 shows total collections from this group over the period fiscal 1994 through 2001.

Table 3
Collections From Sources Estimated as a Group
Fiscal Years 1994 - 2001

	Fiscal Year	Total Collections	% Change
A	1994	$220,411	-
A	1995	$271,760	23.3%
A	1996	$284,332	4.6%
A	1997	$331,064	16.4%
A	1998	$262,497	-20.7%
F	**1999**	**$275,622**	**5.0%**
F	**2000**	**$289,403**	**5.0%**
F	**2001**	**$303,873**	**5.0%**

Collections over the period fiscal 1994 through fiscal 1998 increased by an average annual compound rate of about 5% per year. The forecast continues growth at this same rate of 5% per year over the forecast period.

Transfer From State Fund

The State Fund is required to transfer $10 million to the General Fund in fiscal 1998 and 1999. Total collections of $25,913,438 reported for fiscal 1998 included the first $10 million transfer; an additional transfer of $10 million will be included in the forecast of other revenue for fiscal 1999.

Total Other Revenue

The forecast of total other revenue is derived by adding the forecasts of the two components discussed above, plus the $10 million transfer of revenue from the State Fund in fiscal 1999, as shown in Table 5.

Table 5
Total Other Revenue
Fiscal Years 1999 - 2001

Component of Estimate	FY 1999	FY 2000	FY 2001
Items Estimated Individually	$16,809,969	$17,139,643 #	$17,401,638
Items Estimated As a Group	275,622	289,403	303,873
State Fund Transfer	10,000,000	0	0
Total Other Revenue	$27,085,591	$17,429,046	$17,705,511

Data Sources

Data to produce this revenue estimate comes from several sources. The primary source is SBAS 635 collections, by month and by fiscal year end, for each of the revenue classes included in the estimate. Secondary sources include information from various state agencies regarding separate revenue items, fiscal note information from legislation passed in previous sessions, and information contained in budget analyses and other reports produced by the Legislative Fiscal Division.

TELEPHONE COMPANY LICENSE TAX

General Fund Revenue Estimate

Revenue Description

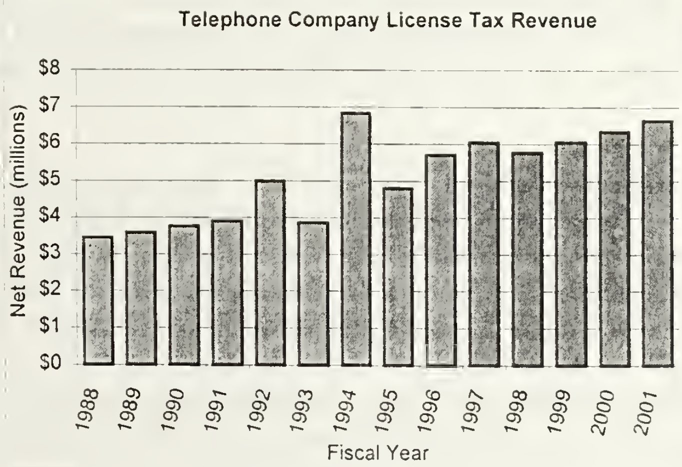
Section 15-53-105, Montana Code Annotated directs the Department of Revenue to impose a tax of 1.8% upon the gross revenue in excess of $250 each quarter received by a person in Montana from telephone business in Montana. "Telephone business" is defined to mean the access and transport, for hire, of two-way communications from point of access to point of termination, both of which are in Montana. The tax is due in quarterly installments and the person liable for the tax must pay the tax within 60 days after the end of the quarter. The revenue source from this is deposited in the General Fund.

Historical and Projected Revenue

Table 1 shows historical and projected telephone company license tax revenue. In Table 1, fiscal years 1992 and 1994 show relatively high revenue levels. This is due to slightly more than $1 million of accruals in fiscal 1992 and $2.6 million in audit revenue in fiscal 1994. Aside from these adjustments, there has been considerable growth in the tax between fiscal years 1994 and 1998. This reflects a general trend of increased consumer purchases of telecommunications services, as well as the advent and popularity of new communications devices such as cellular phones, the Internet, and paging services.

Table 1
Telephone Company License Tax Revenue
General Fund Revenue
(millions)

	Fiscal Year	Revenue	Percent Change
A	1988	3.450	
A	1989	3.580	3.76%
A	1990	3.760	5.03%
A	1991	3.900	3.71%
A	1992	4.984	27.80%
A	1993	3.866	-22.43%
A	1994	6.835	76.82%
A	1995	4.801	-29.76%
A	1996	5.712	18.98%
A	1997	6.045	5.83%
A	1998	5.773	-4.50%
F	**1999**	6.048	4.76%
F	**2000**	6.336	4.76%
F	**2001**	6.638	4.76%



Forecast Methodology and Projection Calculation

The Telephone Company License Tax revenue estimate is based on contacting people having information about the industry, observation of the industry trends, and several analysis techniques.

Contacts

The first step in arriving at a revenue estimate for the Telephone Company License Tax was to contact the larger payers of the tax to get feedback on how taxable revenues will grow over the next few years.

The largest payer of the Telephone Company License Tax is US West. Representatives from US West said the telecommunications industry is "exploding," but could not say how industry growth would impact the Telephone Company License Tax. They also provided historical revenue information for US West as a whole, but did not have any detailed information for Montana specifically. Overall, growth in total revenue slowed for US West in 1997 compared to previous years. US West's local and intrastate access revenue growth was also lower in 1997.

AT&T is another relatively large payer of the Telephone Company License Tax. AT & T representatives said AT&T has been losing market share overall, and they do not expect any increased growth for Montana specifically.

Although the feedback from telecommunications representatives is interesting, its usefulness is limited for two reasons. First, because of the increasing competitiveness of the industry, the telecommunications market is becoming more and more subdivided, which means more and more companies pay the Telephone Company License Tax. There are approximately 168 telecommunications companies filing the Telephone Company License Tax with the Department of Revenue. Combined, the smaller companies, companies other than the eight largest taxpayers, pay a sizable share of the tax—approximately 17%. Given the large number of companies in the communications market, US West's and AT&T's experiences may not be indicative of what will occur in the industry as a whole.

Second, the Telephone Company License Tax is on two-way *intra*state communication. Long distance, state-to-state telecommunications would not be taxable under the Telephone Company License Tax. This makes it a little more difficult for industry representatives to translate growth for services as whole into growth in the amount of Telephone Company License Tax paid.

Another contact, who is not an industry representative, was Leroy Beeby of the Montana Public Service Commission. Mr. Beeby said he did not know of any

industry activity that could have a significant impact of the Telephone Company License Tax.

General Observations

A couple of additional observations help to formulate how this revenue source will grow. First, the Internet and World Wide Web have experienced phenomenal growth in the past few years. It is expected the growth of the Internet and Web will continue at a good pace. As more homes and businesses hook up to the Internet, they are likely to spend money on additional phone lines and communication services. The Department of Revenue has determined that revenue derived from consumers' use of local access numbers to access the Internet is subject to the Telephone Company License Tax. This means that additional money spent by consumers to access the Internet translates into additional revenue under the Telephone Company License Tax.

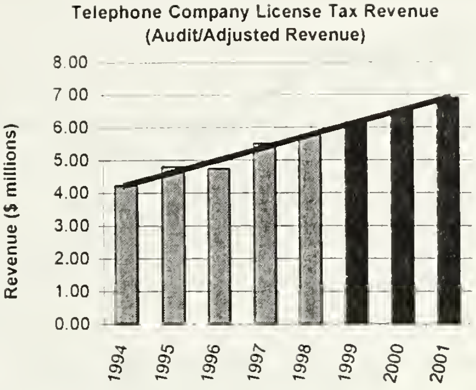
A second factor that could impact Telephone Company License Tax growth is population growth. According to the National Planning Association and Woods & Poole, private forecasting firms used by the Montana Department of Commerce, Montana's population will grow at a rate less than 1% through the year 2001. This is lower than the growth rates seen in the early 1990s when growth was around 1.6% to 2% and peaked in 1993 at 2.12%. The slowing population growth may slightly curb growth in the Telephone Company License Tax.

Analysis of Future Growth

Table 2 shows actual, audit/accrual adjusted Telephone Company License Tax revenue between fiscal years 1994 and 1998. Also shown is a linear trend of those years, which has been projected forward three years. Only the later years of available data were chosen for trend analysis because that period is different from previous periods due to increased use and types of communication services available. The future growth rates indicated by the linear trend for fiscal years 1999, 2000, and 2001 are 6.50%, 6.16%, and 5.80% respectively.

Table 2
Telephone Company License Tax Revenue
General Fund Revenue
(millions)

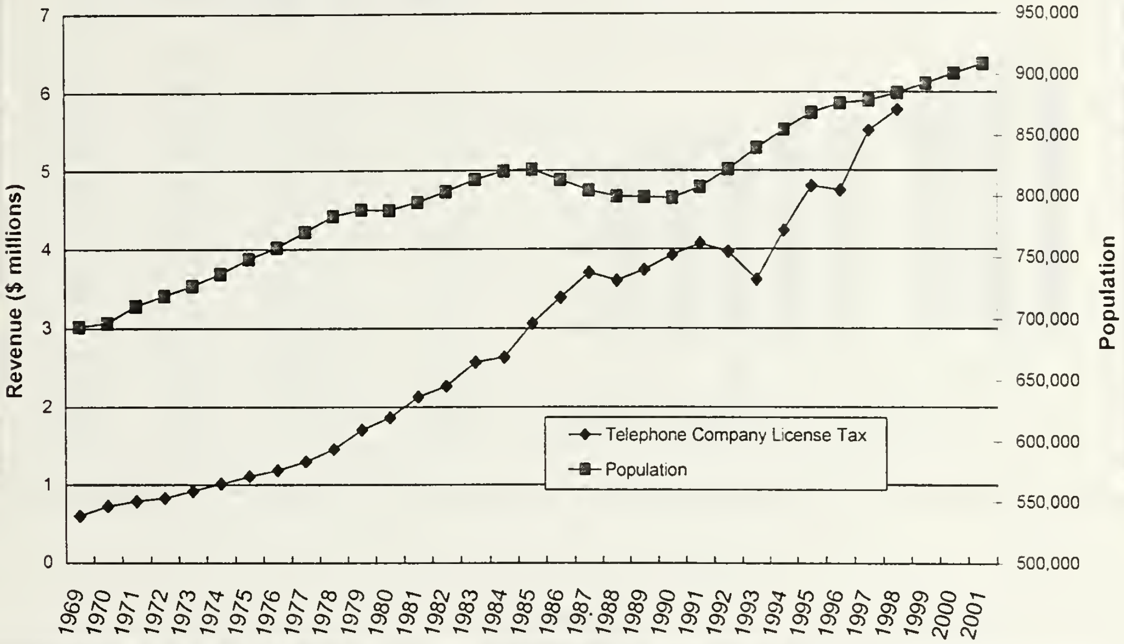
	Fiscal Year	Actual Revenue	Audit Adjusted + Trend	Percent Change
A	1988	3.450	3.450	
A	1989	3.580	3.580	3.76%
A	1990	3.760	3.760	5.03%
A	1991	3.900	3.900	3.71%
A	1992	4.984	3.965	1.67%
A	1993	3.866	3.866	-2.50%
A	1994	6.835	4.235	9.56%
A	1995	4.801	4.801	13.36%
A	1996	5.712	4.743	-1.21%
A	1997	6.045	5.511	16.20%
A	1998	5.773	5.773	4.75%
F	**1999**		**6.149**	**6.51%**
F	**2000**		**6.527**	**6.16%**
F	**2001**		**6.906**	**5.80%**



However, as previously mentioned population growth is expected to slow in Montana and this could impact Telephone Company License Tax revenue. The relationship between Montana population and the Telephone Company License Tax can be seen in Chart 1. Chart 1 plots Telephone Company License Tax Revenue against population for the years 1969 through 1997. Expected population levels by the National Planning Association are also shown for years 1998 through 2001. The Telephone Company License Tax revenue in Chart 1 has been adjusted for audits, accruals, and tax rate changes.

Chart 1 illustrates that there is a relationship between population and tax revenue. Movement in Telephone Company License Tax revenue seems to lag slightly behind movement in population levels. Overall, tax revenue has been growing at a faster rate than population. As population growth decreased between 1985 and 1990, Telephone Company License Tax revenue slowed considerably. Similarly as population grew rapidly in the early 1990s, Telephone Company License Tax revenue also exhibited rapid growth.

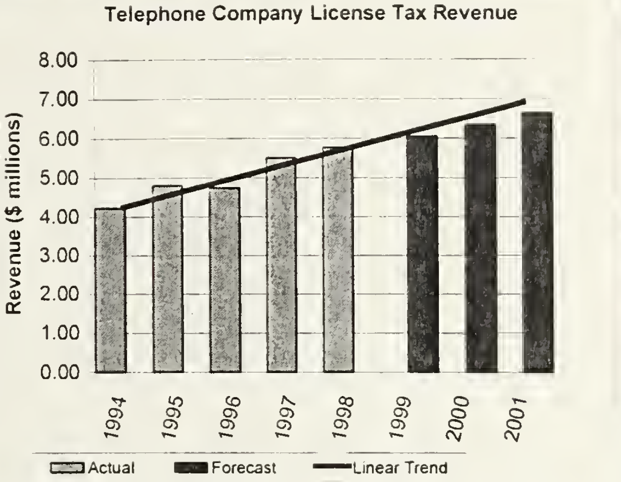
Chart 1
Telephone Company License Tax and Population Data



It is expected that population growth will be slower in the coming years than it was in the early 1990s (as shown in Chart 1). Although the communications industry has been exhibiting rapid growth, due in part to new forms of communication, the growth of the Telephone Company License Tax may be restrained by slower population growth if the historical relationship continues to hold. The growth that occurred between fiscal 1997 and 1998 is continued forward for the next three years. This growth of 4.76% is more moderate than the trend, but not far from it. Plus, the downturn from a high growth rate of 16.2% in fiscal 1997 suggests a more conservative approach may be in order (although this revenue source has exhibited volatility in its historical growth rates). The relationship between the linear trend estimate and the actual forecast estimate is illustrated in Table 3. Audit collections were minimal in fiscal 1998 and it is expected audit collections will be minimal for the next few years as well.

Table 3
Telephone Company License Tax Revenue
General Fund Revenue
(millions)

	Fiscal Year	Audit Adj. Revenue	Percent Change	Trend	Percent Change
A	1988	3.450		3.450	
A	1989	3.580	3.76%	3.580	3.76%
A	1990	3.760	5.03%	3.760	5.03%
A	1991	3.900	3.71%	3.900	3.71%
A	1992	3.965	1.67%	3.965	1.67%
A	1993	3.866	-2.50%	3.866	-2.50%
A	1994	4.235	9.56%	4.235	9.56%
A	1995	4.801	13.36%	4.801	13.36%
A	1996	4.743	-1.21%	4.743	-1.21%
A	1997	5.511	16.20%	5.511	16.20%
A	1998	5.773	4.76%	5.773	4.76%
F	**1999**	**6.048**	**4.76%**	**6.149**	**6.50%**
F	**2000**	**6.336**	**4.76%**	**6.527**	**6.16%**
F	**2001**	**6.638**	**4.76%**	**6.906**	**5.80%**



Summary

The Telephone Company License Tax is projected to grow at 4.76% each year, which produces $6.048 million in revenue in fiscal 1999, $6.336 million in fiscal 2000, and $6.638 in fiscal 2001.

Data Sources

The General Fund revenue data is found in SBAS form 635, revenue class 0830. The Department of Commerce provided population figures (forecasts within the data are from the National Planning Association). The Department of Revenue, Compliance, Valuation and Resolution Process provided additional tax and audit information.

CONTRACTOR'S GROSS RECEIPTS TAX

General Fund Revenue Estimate

Revenue Description

Section 15-50-101, MCA et seq., provides for a tax on the gross receipts received by contractor's for contracts entered into for performing construction work in the state for federal, state, or local governments. The rate of tax is 1% of the gross receipts from the contract. Public agencies contracting with the prime contractor are responsible for withholding the tax from the prime contractor; the prime contractor is responsible for withholding the tax from subcontractors.

Contractors may use the amount of gross receipts tax paid as on offset, or credit, against either their corporation license tax or their individual income tax. In addition, any personal property taxes paid on property located within Montana and used in the contractor's business may be used to obtain a refund of contractor's gross receipts taxes paid. Any net tax remaining is deposited in the General Fund.

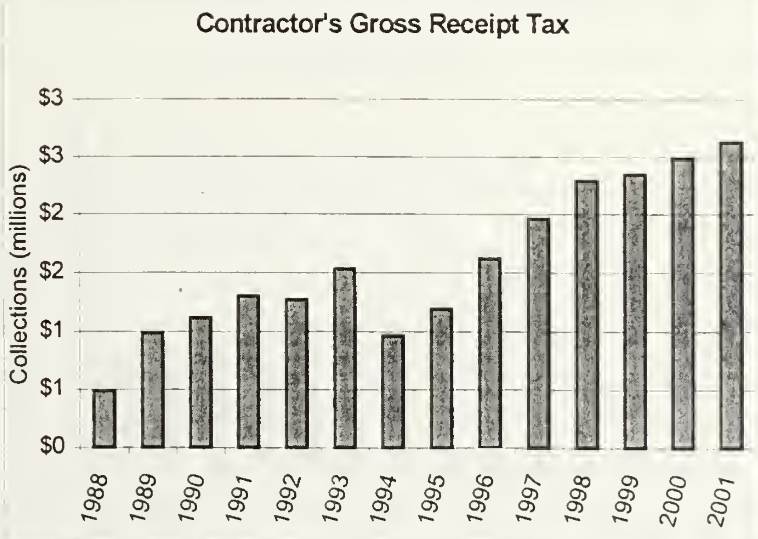
Historical and Forecast Revenues

Table 1 shows historic and forecast revenues for this revenue source.

Table 1
Contractor's Gross Receipts Tax
General Fund Revenues

(millions)

	Fiscal Year	General Fund	Percent Change
A	1988	$ 0.488	NA
A	1989	$ 0.988	102.46%
A	1990	$ 1.118	13.16%
A	1991	$ 1.301	16.37%
A	1992	$ 1.270	-2.38%
A	1993	$ 1.531	20.55%
A	1994	$ 0.964	-37.03%
A	1995	$ 1.192	23.65%
A	1996	$ 1.621	35.99%
A	1997	$ 1.964	21.16%
A	1998	$ 2.291	16.65%
F	**1999**	**$ 2.348**	**2.49%**
F	**2000**	**$ 2.487**	**5.92%**
F	**2001**	**$ 2.626**	**5.59%**



Forecast Methodology and Projection Calculation

The general procedure used to forecast contractor's gross receipts tax is to first forecast gross taxes from this source. Then total income tax credits and personal property tax refunds are forecast. These are then subtracted from the forecast of gross tax to arrive at net tax collections to the General Fund.

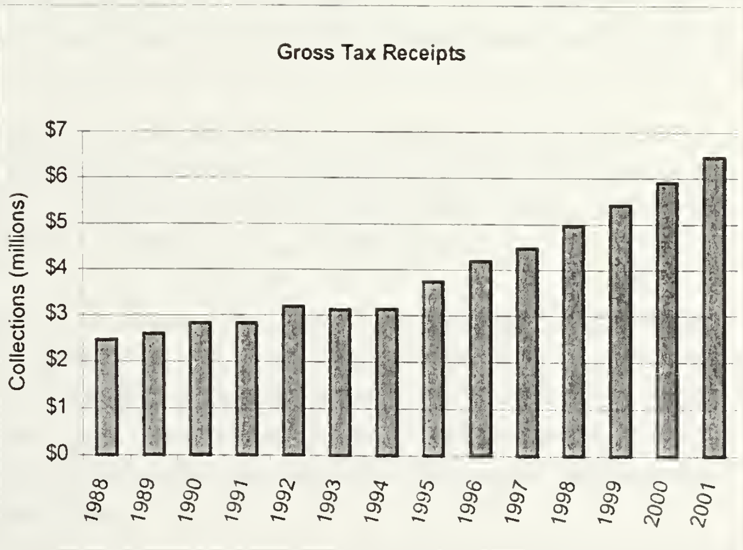
Gross Tax Receipts

Several factors influence the amount of contractor's gross receipts tax collections. Collections will depend foremost on the volume of public contracts being let in any given year. These contracts stem from allocations of federal highway funds, forest service construction contracts, state and federal building programs, etc. Recently, the federal government has allocated record amounts for highway construction to Montana. These allocations should act to bolster this tax source in the next few years.

Table 2 shows historic and forecast amounts of gross tax receipts. Gross tax receipts have been on a steady upward trend since fiscal 1993. The average annual compound growth rate over the period fiscal years 1993 through 1998 is 9.1% per year. This average compound growth rate is continued over the forecast period to produce a forecast of gross tax receipts in fiscal years 1999 through 2001. This results in gross tax receipts forecasts of $5.419 million in fiscal 1999; $5.912 million in fiscal 2000; and $6.450 million in fiscal 2001.

Table 2
Contractor's Gross Receipts Tax
Gross Tax Receipts
(millions)

	Fiscal Year	General Fund	Percent Change
A	1988	$ 2.467	NA
A	1989	$ 2.598	5.31%
A	1990	$ 2.824	8.70%
A	1991	$ 2.826	0.07%
A	1992	$ 3.186	12.74%
A	1993	$ 3.121	-2.04%
A	1994	$ 3.136	0.48%
A	1995	$ 3.738	19.20%
A	1996	$ 4.190	12.09%
A	1997	$ 4.476	6.83%
A	1998	$ 4.967	10.97%
F	**1999**	**$ 5.419**	**9.10%**
F	**2000**	**$ 5.912**	**9.10%**
F	**2001**	**$ 6.450**	**9.10%**



Tax Credits

Also influencing net collections to the General Fund are the amount of income tax credits or refunds of personal property tax taken by contractors. Contractor's may or may not be able to utilize income tax credits depending on their profit and loss situation each year; changes in the volume of personal property used in the state, personal property tax rates, and the purchases of new equipment subject to the nonrefundable new vehicle sales tax all influence the amount of refunds of personal property in any given year. These factors fluctuate significantly from year to year and are very difficult to predict with any great accuracy.

Table 3 shows historic amounts for both individual income, corporation income, and total tax credits.

Table 3
Individual, Corporate and Total Income Tax Credits

Fiscal	Individual Income Tax Credits	Corporation License Tax Credits	Total Tax Credits
1988	$ 59,829	$ 468,476	$ 528,305
1989	100,668	340,577	441,245
1990	138,294	465,871	604,165
1991	54,695	369,159	423,855
1992	286,967	665,519	952,486
1993	227,118	286,255	513,374
1994	567,878	178,784	746,662
1995	392,798	841,784	1,234,582
1996	588,140	565,266	1,153,407
1997	521,246	458,913	980,159
1998	391,511	232,308	623,819

As the table shows, these credits display an erratic, fluctuating historic pattern. Individual income tax credits remained relatively low through 1993, but have been significantly higher since then. However, over the 1994-1998 period, individual income tax credits have been erratic, with no discernable trend.

Corporation license tax credits, too, have varied significantly over time. These credits remained somewhat stable over the period fiscal 1988-1991, then rose significantly in 1992 only to be followed by significant declines in 1993 and 1994. Following 1994, the lowest year over the time period, corporation credits in fiscal 1995 rose to their highest level over the time period, but have displayed a consistent downward trend since then.

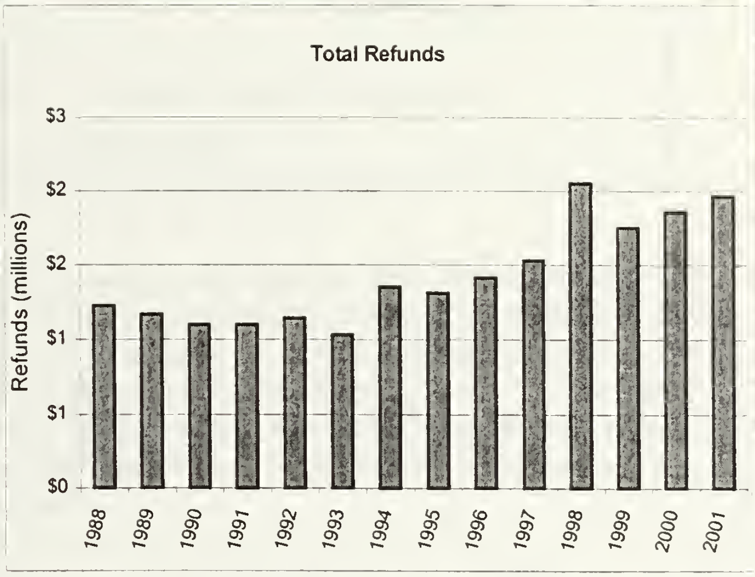
Total credits, because they are the sum of individual income tax and corporation tax credits, also display a large degree of variability over time. Because there is no discernable trend on which to base a forecast, the forecast of total credits for each year of the forecast period (fiscal 1999 through 2001) is simply the average amount of credit taken over the last five years (fiscal 1994 through 1998). This produces a forecast of $947,726 in total credits for each year in the forecast period.

Personal Property and Other Refunds

Table 4 shows historic and forecast amounts for personal property and overpayment refunds. As the table shows, the vast bulk of these refunds are for personal property, with overpayment refunds making up a very small amount of the total.

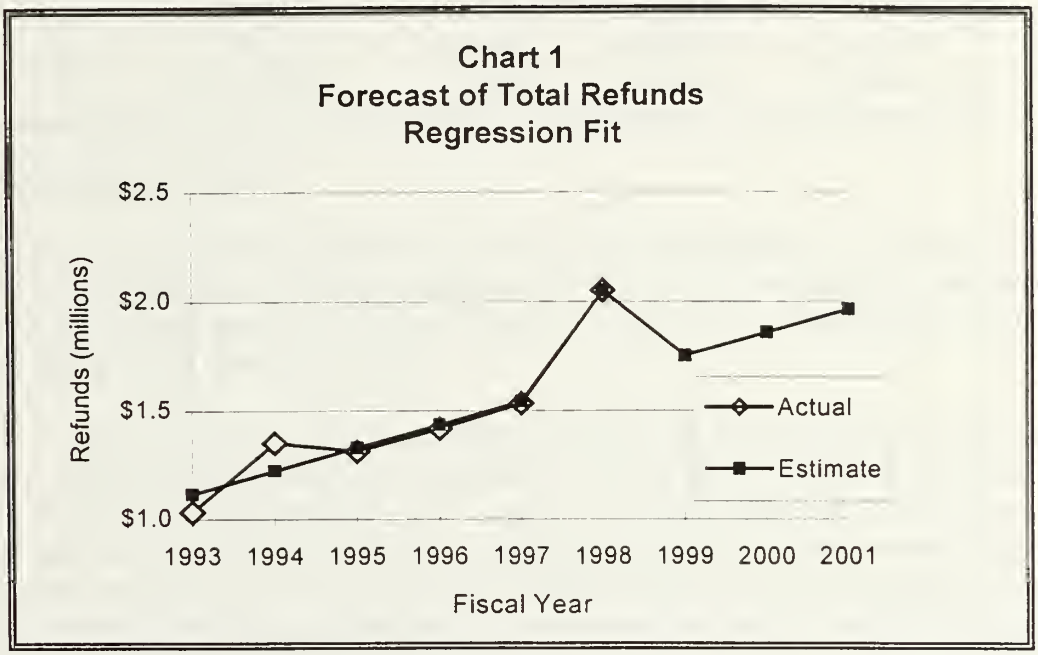
Table 4
Personal Property, Overpayment, and Total Refunds
(millions)

Fiscal Year	Pers. Prop. Refunds	Overpay Refunds	Total Refunds
1988	$ 1.214	$ 0.011	$ 1.225
1989	$ 1.158	$ 0.010	$ 1.168
1990	$ 1.079	$ 0.022	$ 1.101
1991	$ 1.071	$ 0.030	$ 1.101
1992	$ 1.142	$ 0.001	$ 1.143
1993	$ 1.018	$ 0.014	$ 1.033
1994	$ 1.321	$ 0.028	$ 1.350
1995	$ 1.295	$ 0.016	$ 1.311
1996	$ 1.390	$ 0.025	$ 1.415
1997	$ 1.513	$ 0.019	$ 1.531
1998	$ 2.046	$ 0.006	$ 2.053
1999			**$ 1.753**
2000			**$ 1.859**
2001			**$ 1.966**



While total refunds vary significantly over time, the variability in this factor is not as great as with individual or corporation tax credits. Generally, total refunds declined slightly over the period 1988 to 1993. However, since 1993 total refunds have been steadily trending upwards. To obtain a reasonable estimate of total refunds, multiple regression analysis was used to develop a trend for the period fiscal 1993-1998. The very large increase in refunds in fiscal 1998 suggests a possible outlier year. For this reason, a dummy variable was included in the regression to control for this factor.

The following chart shows the results of the regression fit. The regression equation produces an estimate that is slightly above actual refunds in fiscal 1993 and slightly below actual refunds in fiscal 1994. However, the regression estimates of refunds for the period fiscal 1995 through 1998 are very nearly equal to actual refunds for each year.



The results of the regression provide a continuation of the general upward trend witnessed since fiscal 1993. The regression produced a very high R-squared value of 0.96, indicating that 96% of the variation in refunds is explained using the regression equation. Using the regression equation results in total refund forecasts of $1.753 million in fiscal 1999; $1.860 million in fiscal 2000; and $1.966 million in fiscal 2001. This represents growth rates of -14.6%, 6.1%, and 5.7% for fiscal years 1999, 2000, and 2001, respectively.

Net Collections

Forecasted net General Fund collections, shown in Table 5, are derived by taking the forecast of gross tax receipts, and from that amount subtracting the forecasted credits and refunds as discussed in previous sections.

Table 5
Contractor's Gross Receipts Tax
Net General Fund Collections

Fiscal	Gross Tax Collections		Total Income Tax Credits		Total Refunds		Net GF Collections
1999	$ 5,419,160	-	$ 947,726	-	$ 1,753,239	=	$ 2,718,195
2000	$ 5,912,303	-	$ 947,726	-	$ 1,859,548	=	$ 3,105,029
2001	$ 6,450,323	-	$ 947,726	-	$ 1,965,857	=	$ 3,536,740

Corroborating Evidence

The above forecast of contractor's gross receipts tax continues the upwards trend in these collections witnessed over the past four years, and takes collections to levels unprecedented in the recent history of this tax. Corroborating evidence supporting these forecasts exists.

First, a large amount of public contracts let each year stem from the construction and maintenance of highways in Montana. The new federal highway bill increased the amount of federal dollars available for the Montana Department of Transportation by about 60 percent. Very rough, preliminary estimates indicate that highway contracts could total $230-240 million per year. This translates into $2.3 to $2.4 million per year in contractor's gross receipts tax, before credits and refunds, from federal highway projects alone.

Further, collections through September 1999 have totaled $1,129,552. Compared to collections through September of $547,620 in fiscal 1995; $791,806 in fiscal 1996; $610,479 in fiscal 1997; and $572,249 in fiscal 1998; it appears that collections of General Fund revenue from this source may exceed the forecast provided here for fiscal 1999, as collections to date are nearly double those collected by this time last year.

This evidence suggest continued strong growth in this revenue source.

Data Sources

Data on gross tax receipts, individual and corporate income tax credits, personal property and overpayment refunds are all contained in the contractor's gross receipts tax database administered by the Compliance, Valuation, and Resolution process. Net General Fund collections, by month, can be obtained from SBAS 635 Reports for Revenue Class 0815.

INVESTMENT LICENSES AND PERMITS
General Fund Revenue Estimate

Revenue Description

MCA, 30-10-209 provides for the fees to be paid for registration of securities by various types of filings and agents. For registration of securities by notification, coordination, or qualification, or for notice filing of a federal covered security, the fee for the initial year of registration or notice is $200 for the first $100,000 of initial issue or portion thereof, plus 1/10 of 1% of any excess over $100,000, up to a maximum fee of $1,000. In succeeding years the renewal fees for these registrations or notices is 1/10th of 1% of the aggregate offering price of all securities to be offered in the state during the year. This fee may not be less than $200 or more than $1,000.

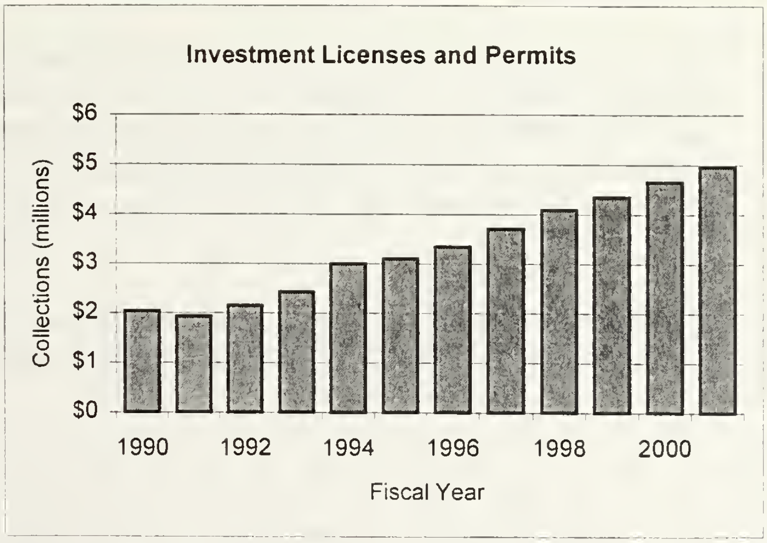
For registration of a broker-dealer or investment adviser, there is $200 for original registration and $200 for each annual renewal. For registration of a salesperson or investment adviser representative, the fee is $50 for original registration, $50 for each annual renewal, and $50 for each transfer. For a federal covered adviser the fee is $200 for the initial notice filing and $200 for each annual renewal.

Historical and Projected Revenues

Table 1 shows historic and projected collections from this revenue source over the period fiscal 1989 through fiscal 2001.

Table 1
Investment Licenses and Permits
General Fund Collections
(millions)

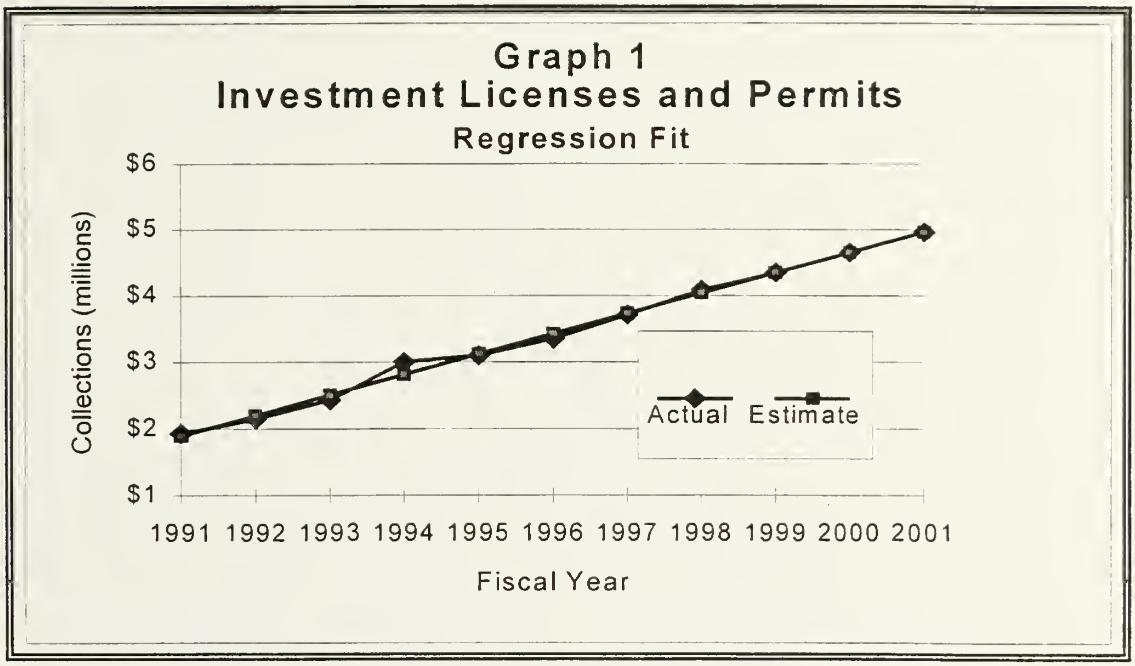
	Fiscal Year	General Fund	Percent Change
A	1988	$ -	NA
A	1989	$ -	NA
A	1990	$ 2.040	NA
A	1991	$ 1.926	-5.59%
A	1992	$ 2.148	11.51%
A	1993	$ 2.428	13.03%
A	1994	$ 3.000	23.55%
A	1995	$ 3.099	3.30%
A	1996	$ 3.344	7.90%
A	1997	$ 3.710	10.96%
A	1998	$ 4.086	10.12%
F	**1999**	**$ 4.348**	**6.42%**
F	**2000**	**$ 4.655**	**7.06%**
F	**2001**	**$ 4.962**	**6.59%**



Forecast Methodology and Projection Calculation

Revenues from this source are a function of the fees charged for registration and noticing, the volume of issuances, and the number of registered brokerages, agents, and issuers. The basic fee structure has not changed over the entire time period shown in Table 1, so the growth in revenues is attributable to growth in the volume of securities issuances, and the number of brokerage firms and agents.

This revenue source has displayed a remarkably consistent growth pattern since 1991. Simple regression analysis was used to capture this trend over the 1991-1998 time period. The following chart shows the actual collections and the estimated collections from the regression fit.



With the exception of 1994, the regression line is very close to the actual amount collected. Because an R-squared of 1.0 would suggest a perfect functional relationship between fiscal year and income, the R-squared of 0.986 found here indicates that this regression produces a very good fit. In other words there is a very strong and therefore predictable relationship between fiscal year and investment licenses and permits.

The time trend regression was used to forecast collections of $4.348 million; $4.655 million; and $4.962 million, in fiscal years 1999, 2000, and 2001, respectively.

Data Sources

The data used in this analysis is fiscal year end collections from SBAS 635 reports for revenue class 0265, general fund collections.

MOTOR VEHICLE FEES

General Fund Revenue Estimate

Revenue Description

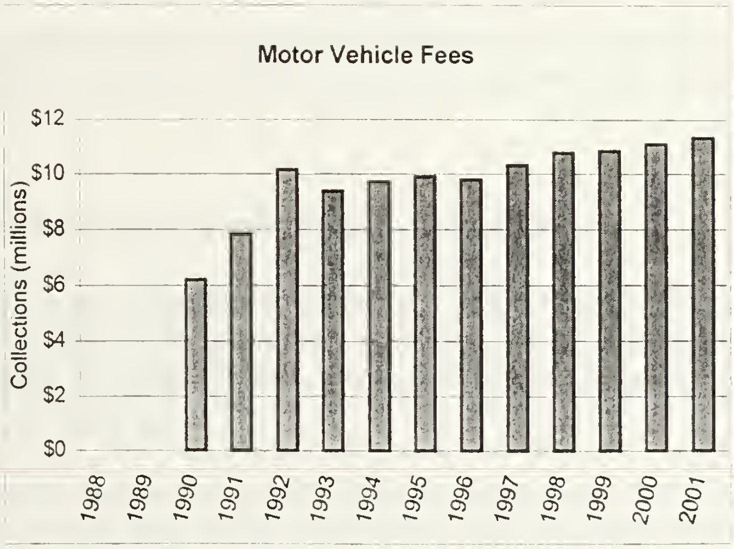
Montana statutes provide for numerous miscellaneous fees associated with the registration and titling of motor vehicles, including cars, trucks, boats, and snowmobiles, among others. Some of these fees, such as the $3 fee paid to obtain a duplicate certificate of ownership, are deposited 100% to the General Fund (MCA, 61-3-204). Other fees are deposited in part to the General Fund. For example, only $3.00 of the $7.50 fleet vehicle registration fee is deposited in the General Fund (MCA, 61-3-324). Other examples of fees deposited in the General Fund include the $5.25 additional registration fee paid at the time of registration of all motor vehicles; the $3 fee paid to provide a duplicate certificate of ownership; the $2 fee for replacement of numbered license plates; and $20 of the $25 fee for the original personalized license plate is deposited in the General Fund.

Historical and Projected Revenue

Table 1 shows historic and forecast total General Fund collections for this revenue source. Collections in fiscal 1992 included accruals totaling $749,600.

Table 1
Motor Vehicle Fees
General Fund Revenues
(millions)

	Fiscal Year	General Fund	Percent Change
A	1988	$ -	NA
A	1989	$ -	NA
A	1990	$ 6.208	NA
A	1991	$ 7.845	26.37%
A	1992	$ 10.152	29.41%
A	1993	$ 9.382	-7.59%
A	1994	$ 9.721	3.62%
A	1995	$ 9.896	1.80%
A	1996	$ 9.801	-0.96%
A	1997	$ 10.315	5.25%
A	1998	$ 10.778	4.49%
F	**1999**	**$ 10.849**	**0.66%**
F	**2000**	**$ 11.097**	**2.28%**
F	**2001**	**$ 11.345**	**2.23%**



As the chart shows, collections grew significantly between 1990 and 1992. However, much of the growth in fiscal 1992 was attributable to a one-time accrual amount of $749,600. If the accrual impact were removed, then collections in fiscal 1992 are very nearly equal to those in fiscal 1993, and collections over the period fiscal 1992 to fiscal 1996 are fairly flat.

Several pieces of recent legislation have acted to increase collections slightly in fiscal years 1997 and 1998. SB163 (1995) provided for an additional fee of $5, all of which is to be deposited in the General Fund, for the original issuance of a combined license plate for amateur radio operators and either a veteran of the armed forces, or a disabled person.

HB97 (1995) provided for the issuance of personalized license plates for veterans. The fee structure for personalized plates (which cost $25 with $20 deposited in the General Fund) did not change, but the availability may have caused some veterans to switch to personalized plates, rather than regular plates, thereby increasing General Fund collections very slightly.

HB307 (1995) created a "title only" procedure for dealers of used motor vehicles, eliminating the need to register each vehicle in inventory. This acted to increase the number of titles issued thereby increasing General Fund revenues.

Because these acts had a delayed applicability date of January 1, 1996, most of the impact was reflected with fiscal 1997 collections.

HB166 (1997) de-earmarked $0.25 of the $5.25 additional registration fee from the highway patrol officer's pension fund, and allocated the entire fee amount to the General Fund. This impact, as reflected in fiscal 1998, totaled $281,169.

The major motor vehicle law changes of the 1997 session (SB57) had no impact on this revenue source because the legislation did not adjust any fee amounts in this revenue source.

Forecast Methodology and Projection Calculation

The large number of separate fees precludes an estimation of the revenue from each one individually. Fortunately, when examined in whole, the total amount collected each fiscal year displays a stable, and fairly consistent growth pattern, that lends itself well to estimation as a group.

Regression analysis was used to capture the growth trend for fiscal years 1993 to 1998. The following chart shows the actual collections and the estimated collections from the regression fit. The regression fit predicts 4 out of 6 years in the regression period very closely. It over estimates collections in fiscal 1996 by about

3%, and under estimates collections in fiscal 1998 by less than 2%. Because an R-squared of 1.0 would suggest a perfect functional relationship between fiscal year and income, the R-squared of 0.88 found here indicates that this regression produces a very good fit. In other words there is a very strong and therefore predictable relationship between fiscal year and motor vehicle fees.

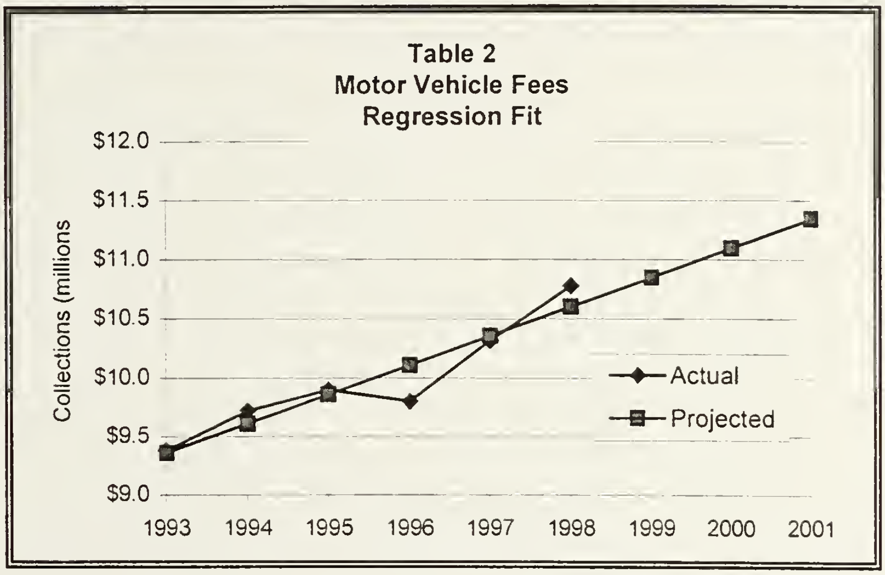


Table 2
Motor Vehicle Fees
Regression Fit

The time trend regression was used to forecast collections of $10.849 million; $11.097 million; and $11.345 million in fiscal years 1999, 2000, and 2001, respectively.

Data Sources

The data used for this forecast is obtained from SBAS 635 Reports; Revenue Class 0405; R.F. Agency 4110. Detailed information by selected types of fees can be seen by examining the various objects of revenue within the General Fund account.

HIGHWAY PATROL FINES
General Fund Revenue Estimate

Revenue Description

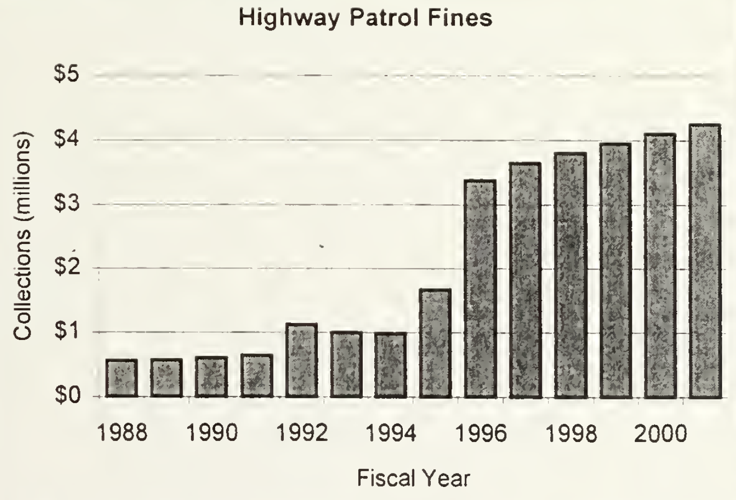
Highway patrol fines are provided for primarily in section, 61-8-701, MCA et seq. Disposition of these fines is provided for in section, 61-12-701, MCA, and section, 53-9-109, MCA. Generally, 18% of the fines assessed and bails forfeited, except those paid to a justice's court, on all offenses involving a violation that are a result of citations or tickets issued by the highway patrol, are deposited in the crime victims compensation and assistance account. The fund balance on this account as of March 31 of each year is limited to $500,000. Balances in excess of this amount, and all other fines resulting from apprehensions or arrests by highway patrol officers are deposited in the General Fund.

Historical and Projected Revenues

Table 1 shows actual and projected General Fund collections from this revenue source for fiscal years 1988 to 2001.

Table 1
Highway Patrol Fines
(millions)

	Fiscal Year	General Fund	Percent Change
A	1988	$ 0.558	-
A	1989	$ 0.571	2.30%
A	1990	$ 0.602	5.50%
A	1991	$ 0.644	7.00%
A	1992	$ 1.122	74.10%
A	1993	$ 0.999	-11.00%
A	1994	$ 0.988	-1.10%
A	1995	$ 1.673	69.30%
A	1996	$ 3.374	101.70%
A	1997	$ 3.644	8.00%
A	1998	$ 3.801	4.30%
F	**1999**	**$ 3.950**	**3.90%**
F	**2000**	**$ 4.100**	**3.80%**
F	**2001**	**$ 4.250**	**3.70%**



Collections over this time period have grown significantly. During fiscal years 1988 to 1991 collections remained fairly stable at just over half a million dollars. Then from fiscal years 1992 to 1994 collections increased to around a million dollars. In fiscal 1995, collections increased to $1.67 million. Then, beginning with fiscal 1996, collections jumped to their more current levels of $3-$4 million. Collections are projected to increase to more than $4 million beginning in fiscal 2000.

Forecast Methodology and Projection Calculation

Statutory fine amounts, with one exception, appear to have remained constant since 1993. The one exception is for fourth offense DUI. SB316 (1995) provided for a new fine for fourth offense DUI of not less than $1,000 or more than $10,000, and further provided that a court may not defer imposition of the sentence for fourth offense DUI. Suspension of the previous statewide speed limit in December of 1995 contributed to the increase in the general level of fines since fiscal 1994.

The growth in this revenue source has leveled somewhat since 1996, growing at a rate of 8% in 1997 and 4.3% in 1998. Collections increased $157,101 between fiscal 1997 and 1998. This forecast anticipates revenues from this source will continue to grow by $150,000 per year. This results in growth rates of 3.9%, 3.8%, and 3.7% in fiscal years 1999, 2000, and 2001, respectively; and produces forecast revenues of $3.950 million; $4.100 million; and $4.250 million in these years.

Data Sources

The data source used in this projection is monthly and fiscal year end collections of highway patrol fines to the General Fund (SBAS Report 635, for revenue class 1500). Monthly collections display a consistent collection pattern after about September of each year. This collection pattern will be used to monitor and adjust the forecast as required.

DRIVER'S LICENSE FEES

General Fund Revenue Estimate

Revenue Description

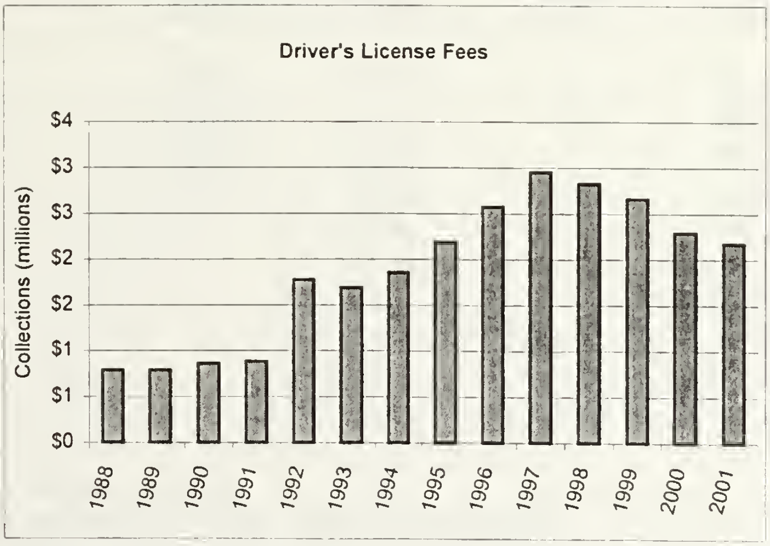
General Fund revenues Include collections from driver's license fees, motorcycle endorsements, commercial vehicle endorsements, and duplicate license fees. The current law fee amounts can be found in sections, 61-5-111 and 61-5-114,MCA. Driver's license fees make up about 85% of the total revenue in this source, while the other fees comprise the remaining 15% of revenue.

Historic and Projected Revenue

Table 1 shows historic and projected collections for this revenue source. Collections increased each year since fiscal 1993, with the exception of fiscal 1998 when collections declined slightly. Revenues were fairly stable for the fiscal years 1992-1994. In 1995, the General Fund allocation of driver's license fees increased from 56.5% to 65.3%, adding $265,000 to the General Fund. Beginning in fiscal 1996, a portion of motorcycle endorsements and duplicate license fees were allocated to the General Fund adding $61,558 to revenues.

Table 1
Driver's License Fees
General Fund Revenues
(millions)

	Fiscal Year	General Fund	Percent Change
A	1988	$ 0.790	NA
A	1989	$ 0.788	-0.25%
A	1990	$ 0.863	9.52%
A	1991	$ 0.883	2.32%
A	1992	$ 1.776	101.13%
A	1993	$ 1.693	-4.67%
A	1994	$ 1.855	9.57%
A	1995	$ 2.184	17.74%
A	1996	$ 2.574	17.86%
A	1997	$ 2.954	14.76%
A	1998	$ 2.828	-4.27%
F	**1999**	**$ 2.663**	**-5.83%**
F	**2000**	**$ 2.290**	**-14.01%**
F	**2001**	**$ 2.171**	**-5.20%**



The biggest impact on driver's license revenues in recent years has been the Department of Justice program to phase in the transition from a 4-year driver's license to an 8-year license. Prior to October 1, 1995 all driver's licenses issued were 4-year licenses. Beginning October 1, 1995, half of all licenses issued have been 8-year licenses. This practice will continue until all licenses have been converted to 8-year licenses. Because the 8-year license costs twice as much ($32) as the 4-year license ($16), this will have the impact of accelerating revenue collections for fiscal years 1996 through 2000. The largest impacts will occur in fiscal years 1997, 1998, and 1999, as these years will experience a full year's worth of impact; fiscal years 1996 and 2000 are impacted only part of the year.

Also impacting total collections from driver's license fees is the percentage allocation of these monies to the General Fund. Section, 61-5-121,MCA provides for the distribution of these fees. Driver's license fees currently are distributed to the following accounts in the amounts shown in the following table:

- state special revenue fund—highway patrol retirement (SSRF),
- state traffic education account (STEA)
- county General Fund (CGF), and
- state General Fund (SGF), as follows:

Table 2
Current Law Distribution of Driver's License Fees

	Percentage Distribution			
License Type	SSRF	STEA	CGF	SGF
Duplicate license[1]	25.00	8.75	-	66.25
Duplicate license[2]	25.00	8.75	3.75	62.50
Driver's license[1]	16.70	26.25	-	57.05
Driver's license[2]	16.70	26.25	2.50	54.55
Motorcycle endorsement[1]	-	63.46	-	36.54
Motorcycle endorsement[2]	-	63.46	3.34	33.20
Comm. lic. - interstate[1]	-	-	-	100.00
Comm. lic. - interstate[2]	-	-	2.50	97.50
Comm. lic. - intrastate[1]	-	-	-	100.00
Comm. lic. - intrastate[2]	-	-	2.50	97.50

[1] Disposition of fees if collected by Department of Justice.

[2] Disposition of fees if collected by county treasurer or other agent of the department.

Forecast Methodology and Projection Calculation

There are four components to this revenue estimate: 1) driver's license fees; 2) commercial vehicle endorsements; 3) motorcycle endorsements; and 4) duplicate license fees. The projection of collections for this revenue source examine each of the four components separately. Collections for each component are projected and then summed to provide a total revenue estimate.

Driver's License Fees

As mentioned above, driver's license fees comprise about 85% of the total collections from this revenue source. Projections for driver's license fees are produced by first projecting the theoretical impact of the phase-in program; then these impacts are adjusted for the underlying population growth trend to arrive at total collections from driver's license fees.

The impact of the phase-in program is determined by using fiscal 1995 as a base year, because fiscal 1995 is the last year in which the phase-in program had no impact. To isolate the impact of the phase-in program, it is assumed that the number of driver's licenses issued in fiscal 1995 remains constant over time, and that an equal number of licenses is issued in each month of the year.

Table 3 shows the isolated impact of the phase-in program on General Fund revenues, under the above set of assumptions. The first column of Table 3 shows the fiscal year. The next three columns show the amount of total fees from driver's licenses in the base year, the theoretical collections under the phase-in program, and the difference. The next column shows the General Fund percentage applied in each year. Multiplying this percentage by the difference column provides the impact of the phase-in program shown in the last column of the table.

Table 3
Impact of Driver's License Fee Phase-In Program on General Fund Revenue

	Total Collections				Impact of
FY	Base Year	Phase-In	Difference	GF %	Phase-In
1995	$3,005,376	$3,005,275	$ 0	65.29%	$ 0
1996	$3,005,376	$4,132,392	$1,127,016	54.79%	$ 617,492
1997	$3,005,376	$4,508,064	$1,502,688	56.84%	$ 854,128
1998	$3,005,376	$4,508,064	$1,502,688	56.90%	$ 855,029
Projected					
1999	$3,005,376	$4,508,064	$1,502,688	56.90%	$ 855,029
2000	$3,005,376	$3,381,048	$ 375,672	56.90%	$ 213,757
2001	$3,005,376	$3,005,275	$ 0	56.90%	$ 0

The impacts shown in Table 3 are then adjusted to reflect growth in the population of people of driver age; generally, this is assumed to be the population age 15 and older. Historic and projected population data provided by the Census and Economic Information Center at the Department of Commerce show this age group to have a population of 678,580 in 1995, and a projected population of 724,250 in the year 2001. This represents an average annual growth rate of 1.1% over this time period.

Table 4 shows the impact of adjusting the figures from Table 3 for population. The first column is the fiscal year. The second column is the General Fund estimate attributable to the phase-in program, before population adjustments, or column 6 from Table 3. The third column is the population adjustment factor. This factor is 1.011 in fiscal 1996, representing the average annual growth rate of 1.1%. Because the population growth factor is compounded from year to year it grows over time. So for fiscal 1997 the growth factor is 1.011 times 1.011, or 1.0221; for fiscal 1998 the growth factor is 1.011 times 1.011 times 1.011, or 1.0334; and so on. Column 4 shows the product of the growth factor and the phase in General Fund value from Table 3, and represents General Fund collections after adjusting for population growth. Finally, column 5, which is the difference between General Fund collections before population adjustment, and General Fund collections after population adjustment, shows the impact of population growth in each year.

Table 4
Impact of Population Growth on Driver's License Fee Revenue

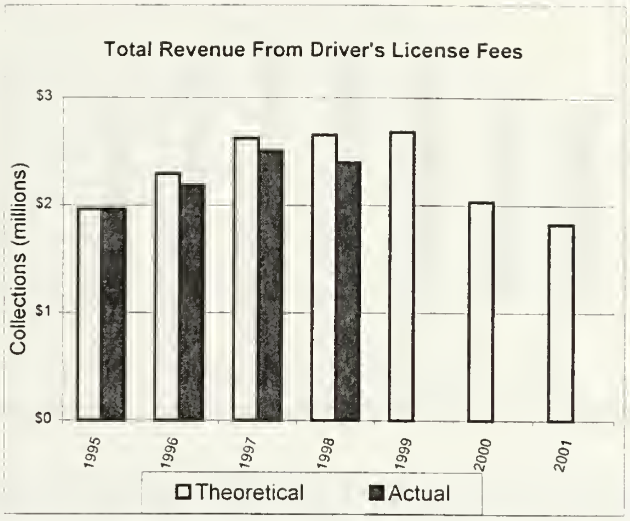
FY	Table 2 Phase-In GF		Population Growth Factor		General Fund Adjusted for Pop. Growth	Impact of Pop. Growth
1995	$1,962,210	x	n/a	=	$1,962,210	$ 0
1996	$2,264,138	x	1.0110	=	$2,289,043	$ 24,905
1997	$2,562,384	x	1.0221	=	$2,619,066	$ 56,682
1998	$2,565,088	x	1.0334	=	$2,650,671	$ 85,583
			Projected			
1999	$2,565,088	x	1.0447	=	$2,679,828	$ 114,740
2000	$1,923,816	x	1.0562	=	$2,031,980	$ 108,164
2001	$1,710,059	x	1.0678	=	$1,826,072	$ 116,013

The fourth column in Table 4 represents what General Fund collections from driver's license fees should theoretically be under the phase-in program, adjusted for population growth over this time period. These theoretical numbers can now be compared with actual collections for the period 1995-1998 to see how well actual collections are tracking the theoretical projections.

Table 5, and the accompanying chart, show theoretical collections over the period fiscal 1995 to fiscal 2001, and actual collections for the period fiscal 1995 to fiscal 1998.

Table 5
Theoretical vs. Actual General Fund Collections
Driver's License Fees
(millions)

	Fiscal Year		Theor. Collections		Actual Collections		Difference
A	1995	$	1.962	$	1.962	$	-
A	1996	$	2.289	$	2.181	$	(0.108)
A	1997	$	2.619	$	2.502	$	(0.117)
A	1998	$	2.651	$	2.396	$	(0.255)
F	**1999**	**$**	**2.680**				
F	**2000**	**$**	**2.032**				
F	**2001**	**$**	**1.826**				

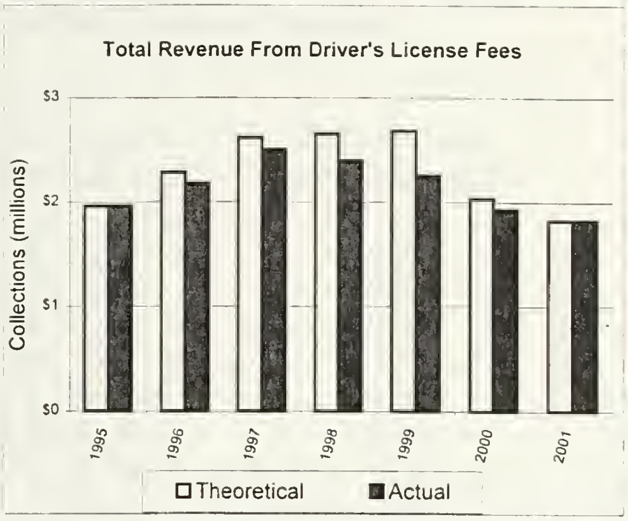


In general, actual collections track theoretical collections fairly well up until fiscal 1998. Whereas theoretical collections increase slightly above fiscal 1997,due purely to the population growth factor, actual collections fell relative to fiscal 1997. This suggests that actual collections may already have started the downward turn suggested by the theoretical collections path over the longer term of the entire forecast period. Further evidence of this is suggested by examining total collections through September of fiscal 1999, which are 94% of collections through September of fiscal 1998. Based on this evidence, total collections for fiscal 1999 were forecast to decline to 94% of fiscal 1998 collections.

The forecast for fiscal year 2001 is the same as the theoretical value, as this reflects only the growth in population after all of the effects of the phase-in program have run their course. Finally, the forecast for fiscal 2000 is derived by taking the same relative proportional downward adjustment from 1999 to 2000 as the theoretical decline. Table 6, and the accompanying chart, show theoretical and actual and forecast revenues over the entire time period 1995 to 2001.

Table 6
Theoretical vs. Actual General Fund Collections Driver's License Fees, 1995-2001
(millions)

	Fisca Year		Theor. Collections		Actual Collections		Difference
A	1995	$	1.962	$	1.962	$	-
A	1996	$	2.289	$	2.181	$	(0.108)
A	1997	$	2.619	$	2.502	$	(0.117)
A	1998	$	2.651	$	2.396	$	(0.255)
F	**1999**	**$**	**2.680**	$	2.252	$	(0.428)
F	**2000**	**$**	**2.032**	$	1.929	$	(0.103)
F	**2001**	**$**	**1.826**	$	1.826	$	-



Note that in fiscal 2001 collections from driver's license fees are forecast to be less than what they were in fiscal year 1995. Recall, however, that in fiscal year 1995 the effective General Fund allocation percentage for driver's license fees was 65.29%. Had it been the fiscal year 2001 forecast allocation percentage of 56.9%, revenues would have been lower by $252,227 in FY1995, and the growth in driver's license collections between these two years would reflect only the underlying population growth trend.

The forecast collections from driver's license fees in Table 6 represent one component (85%) of the total collections from this revenue source. The remaining components include commercial vehicle endorsements, motor cycle endorsements, and duplicate license fees, and are forecast in following sections.

Commercial Vehicle Endorsements

In addition to the regular driver's license fee of $4 per year, holders of commercial driver's licenses must also pay an additional fee of $5 per year for an *interstate* commercial license, or $3.50 per year for an *intrastate* commercial license. Because these licenses also will be subject to the provisions of the phase-in to 8-year licenses, the revenue from these licenses is expected to display a collections pattern over time similar to that of driver's licenses.

Table 7 shows the actual and forecast *total* amount of driver's license fee collections, before allocation to the General Fund, and the actual and forecast amount of commercial

vehicle endorsements. (*Total* driver's license fees is the actual/forecast General Fund amount from Table 6 divided by the allocation percent in Table 3 for each year.)

Table 7
Forecast of Commercial Endorsement Revenue

	FY	Total Driver's License Fees	Commercial Endorsements	Ratio of Fees to Endorsements
A	1996	$3,980,430	$331,498	0.083
A	1997	$4,402,940	$374,638	0.085
A	1998	$4,211,134	$357,540	0.085
		Projected		
F	1999	$3,958,284	$336,454	0.085
F	2000	$3,389,913	$288,143	0.085
F	2001	$3,209,266	$272,788	0.085

For the last three fiscal years, commercial endorsements have consistently been very close to 8.5% of driver's license fees. For fiscal years 1999 through 2001, commercial endorsements are forecast to continue to be 8.5% of total driver's license fees.

Motor Cycle Endorsements

MCA, 61-5-111 provides for a motorcycle endorsement fee of $0.50, which is paid in addition to a driver's license fee. Motor cycle endorsements are a very small portion of the total revenue from this source. They first became a part of this source in fiscal 1996, and have totaled $12,010; $16,515; and $14,429 in fiscal years 1996, 1997, and 1998, respectively. These fees are also forecast to decline in tandem with driver's license fees to $14,000 in fiscal 1999; $13,000 in fiscal 2000; and back to the 1996 level of $12,000 in fiscal 2001.

Duplicate License Fees

MCA, 61-5-114 provides for a fee of $5 to obtain a duplicate of a driver's license that has been lost. This revenue also first became a part of General Fund revenues for this source in fiscal 1996. Collections have totaled $49,548 in fiscal 1996; $59,865 in fiscal 1997; and $59,713 in fiscal 1998. The forecast keeps collections at $60,000 from fiscal years 1999 through 2001.

Total Collections From Driver's License Fees

Table 8 shows total actual and forecast General Fund collections for this revenue source for fiscal years 1995 through 2001, by revenue component.

Table 8
Total General Fund Revenue From Driver's License Fees
By Component, Fiscal Years 1995 - 2001

FY	Driver's Lic. Collections		Commercial Endorsements		Motorcycle Endorsements		Duplicate Lic. Fees		Total Collections
1995	$1,962,228	+	$ 221,974	+	$ 0	+	$ 0	=	$2,184,202
1996	$2,181,013	+	$ 331,498	+	$ 12,010	+	$ 49,548	=	$2,574,068
1997	$2,502,515	+	$ 374,638	+	$ 16,515	+	$ 59,865	=	$2,953,533
1998	$2,396,025	+	$ 357,540	+	$ 14,429	+	$ 59,713	=	$2,827,707
Projected									
1999	$2,252,264	+	$ 336,454	+	$ 14,000	+	$ 60,000	=	$2,662,718
2000	$1,928,860	+	$ 288,143	+	$ 13,000	+	$ 60,000	=	$2,290,003
2001	$1,826,072	+	$ 272,788	+	$ 12,000	+	$ 60,000	=	$2,170,860

Data Sources

Data sources for this revenue estimate include the following:

1) Collections by month and fiscal year end from SBAS 635 Report, Revenue Class 0215, by object of revenue code.
2) Supporting fiscal year end collections data from SBAS Form 662 Reports from the Department of Justice.
3) Population data and forecasts from NPA Data Services, as provided by the Census and Economic Information Center and the Department of Commerce.
4) Miscellaneous supporting documents and reports provided by the Department of Justice.

VIDEO GAMBLING TAX

General Fund Revenue Estimate

Revenue Description

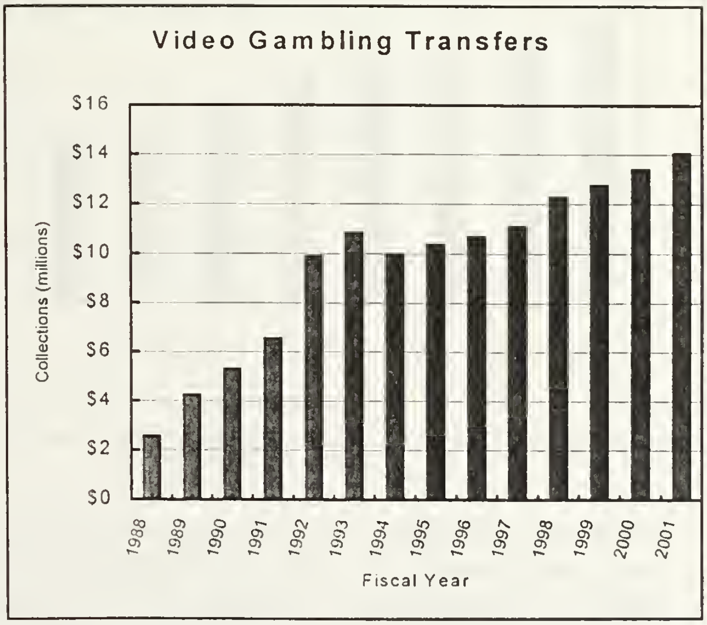
Section 23-5-610, Montana Code Annotated establishes the Video Gambling Machine Gross Income Tax. It is a tax applied to the gross machine income received from video poker and keno machines. Gross machine income is the difference between total receipts from a machine minus its cash payouts. The tax rate is 15% of gross machine income. Two-thirds of the tax is distributed to the county or municipal government where the machine is located, and the remaining 1/3 of the tax is deposited into the state General Fund.

Historical and Projected Revenue

Table 1 presents historical and projected revenue transfers to the General Fund from the Video Gambling Tax. As the Table shows, a steady pattern of growth in General Fund revenues from the video gambling tax is projected despite the large revenue variability in the early 1990s. A large portion of the revenue variability was the result of accounting changes in allocating proceeds to the General Fund, i.e. accruals.

Table 1
Historical and Projected Video Gambling
Transfers to the General Fund (millions)

	Fiscal Year	General Fund	Percent Change
A	1988	$ 2.561	NA
A	1989	$ 4.249	65.91%
A	1990	$ 5.303	24.79%
A	1991	$ 6.551	23.54%
A	1992	$ 9.875	50.74%
A	1993	$10.818	9.55%
A	1994	$ 9.955	-7.98%
A	1995	$10.346	3.92%
A	1996	$10.666	3.09%
A	1997	$11.073	3.82%
A	1998	$12.256	10.68%
F	**1999**	**$12.748**	**4.02%**
F	**2000**	**$13.389**	**5.03%**
F	**2001**	**$14.030**	**4.79%**



Forecast Methodology and Projected Calculation

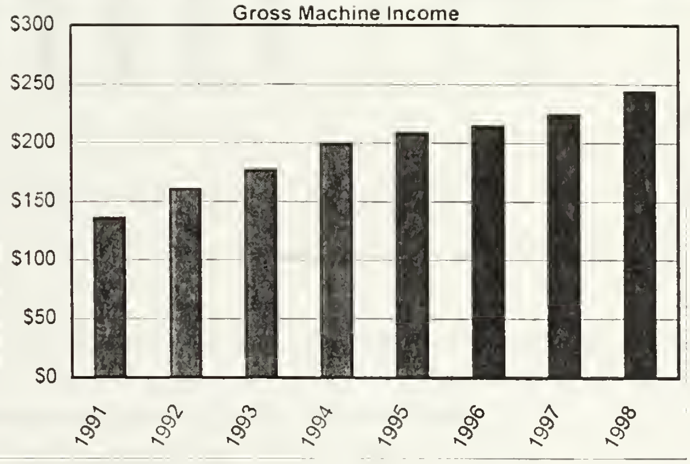
The method used to project video gambling tax revenue to the General Fund uses linear regression analysis to illustrate the growth trend in gross machine revenue. After gross machine revenue is projected, the tax rate and General Fund distribution percentage is applied to yield future General Fund collections.

Gross Machine Income

Gross machine income is the difference between total receipts from all video gambling machines minus cash payouts. Multiplying gross machine income by the tax rate and General Fund distribution percentage closely approximates General Fund revenue for each fiscal year. Actual General Fund revenue differs slightly due to penalties assessed and refunds given by the Department of Justice. Neither penalties assessed or refunds have a significant impact on tax collections. Gross machine income has followed a stable growth trend since fiscal 1992. Table 2 shows this pattern of growth since fiscal 1991.

Table 2
Video Gambling Gross Machine Income
(millions)

Fiscal Year	Gross Machine Income	Percent Change
1991	$135.574	
1992	$160.246	18.20%
1993	$176.605	10.21%
1994	$199.270	12.83%
1995	$208.342	4.55%
1996	$214.011	2.72%
1997	$223.906	4.62%
1998	$243.439	8.72%

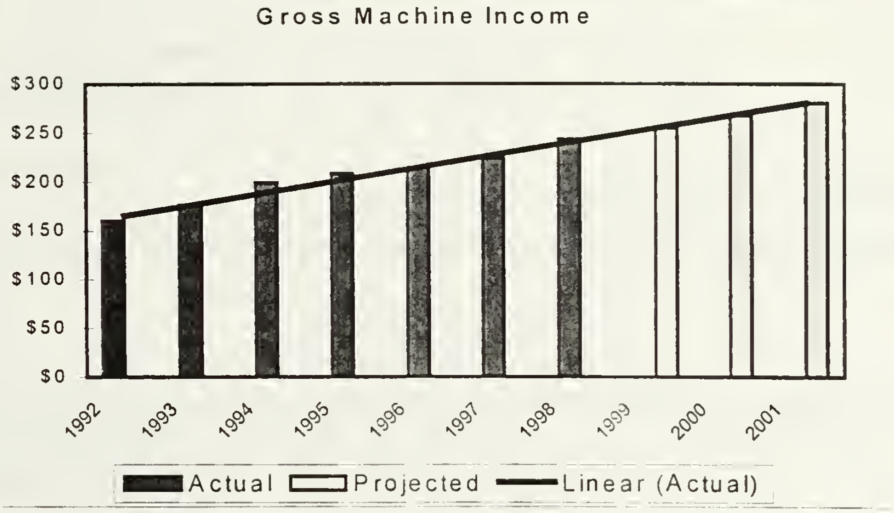


The pattern of growth shown in Table 2 lends itself to linear regression analysis. The regression analysis describes the relationship that exists between fiscal year and the level of gross machine income. The regression is performed over fiscal years 1992-1998. Years before fiscal 1992 are omitted from the regression because the change in gross machine income in prior years was judged to be

unusually high and not reflective of growth in more recent years. This period of unusually high growth is reflected in the growth of transfers to the General Fund that are shown in Table 1.

The results of the regression analysis are shown in Table 3. The regression line is fitted to actual gross machine income. Visually the regression line does a good job of indicating what actual income levels are from year to year. Moreover, the regression has an R-squared of 0.967. Because an R-squared of 1.0 would suggest a perfect functional relationship between fiscal year and income, the R-squared of 0.967 found here indicates that this regression produces a very good fit. In other words there is a very strong and therefore predictable relationship between fiscal year and gross machine income.

Table 3
Regression Results
(millions)



Using the regression to generate future levels of gross machine income produces the results shown in Table 4.

Table 4
rojected Gross Machine Incom

Fiscal Year	Projected Gross Machine Income
1999	$254,963,557
2000	$267,782,269
2001	$280,600,981

General Fund Video Gambling Tax Revenue

Now that numbers for gross machine income have been estimated, the calculation of the General Fund share is straightforward. Total video gambling tax collections are equal to 15% of total gross receipts. One third of total tax collections goes to the General Fund. Table 5 shows the calculation and the Video Gambling tax allocated to the General Fund.

Table 5
Calculation of General Fund Video Gambling Tax

	FY 1999 Estimated	FY 2000 Estimated	FY 2001 Estimated
Gross video gambling income	$ 254,963,557	$ 267,782,269	$ 280,600,981
Multiplied by the tax rate	0.15	0.15	0.15
Total forecasted tax collections	$ 38,244,533	$ 40,167,340	$ 42,090,147
Multiplied by the general fund %	0.33	0.33	0.33
Total to general fund	$ 12,748,178	$ 13,389,113	$ 14,030,049

Data Sources

The General Fund revenue transfers data can be obtained from SBAS form 635, revenue class 635. Rick Ask, Department of Justice, provided the data on gross video gambling income.

LOTTERY

General Fund Revenue Estimate

Revenue Description

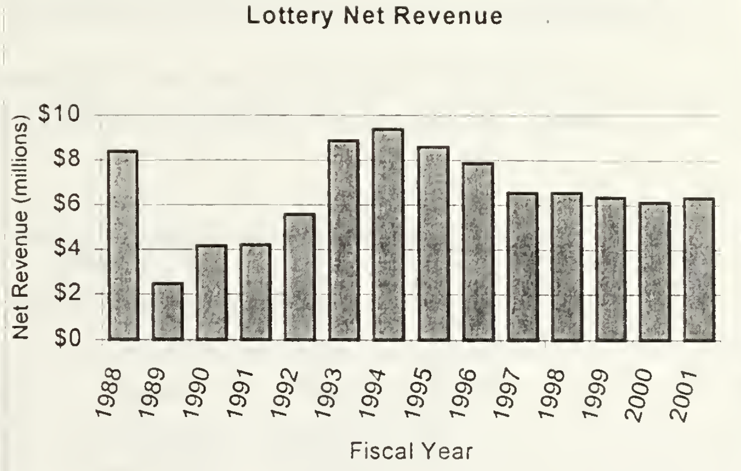
Section 23-7-402 of the Montana Code Annotated directs the net revenue from the operation of the lottery to be deposited quarterly in the General Fund. Net revenue from the lottery consists of gross lottery revenue, which includes the sum of ticket sales, short-term investment pool and Multi-State Lottery Association interest income, and license fee income, minus the payment of prizes, commissions, and operating expenses.

Historical and Projected Revenue

Table one presents historical and projected net revenue from the lottery. Today all net revenue goes to the General Fund, but in the past it went to a variety of sources including the Office of Public Instruction, and the Board of Crime Control. Net revenues from the lottery reached a maximum $9.4 million in fiscal 1994, and have declined significantly. Fiscal 1998 showed a leveling of net revenues.

Table 1
Lottery
Net Revenue
(millions)

	Fiscal Year	Net Revenue	Percent Change
A	1988	8.376	NA
A	1989	2.468	-70.53%
A	1990	4.169	68.90%
A	1991	4.200	0.76%
A	1992	5.583	32.91%
A	1993	8.869	58.86%
A	1994	9.377	5.73%
A	1995	8.594	-8.35%
A	1996	7.859	-8.55%
A	1997	6.553	-16.61%
A	1998	6.564	0.17%
F	**1999**	**6.362**	**-3.08%**
F	**2000**	**6.136**	**-3.56%**
F	**2001**	**6.332**	**3.20%**



Forecast Methodology and Projection Calculation

In summary the forecasted estimates are made by projecting gross revenues from ticket sales, short-term investment pool and Multi-State Lottery interest income, and license fees then subtracting projected prizes, commissions, and administrative costs.

Calculation of Gross Revenues

Total revenues are projected by multiplying the trend of per capita receipts by population projections for the period being considered. Table 2 shows total receipts, including interest income, license fees, and ticket sales, Montana population, and per capita receipts since fiscal 1992. Per-capita receipts reached a maximum in fiscal 1994 at $44.08 per-person and declined until fiscal 1998. Because the decline stopped in fiscal 1998, the average of fiscal years 1997 and 1998 per-capita receipts is used as the trend in the projection of future total receipts. This average is **$33.22** per person.

Table 2
Per -Capita Lottery Receipts
(millions)

Fiscal Year	Total Receipts	Montana Population	Per Capita Receipts
1992	$28.067	0.823	$34.12
1993	$36.938	0.840	$43.97
1994	$37.688	0.855	$44.08
1995	$32.963	0.869	$37.94
1996	$32.021	0.877	$36.52
1997	$28.506	0.879	$32.44
1998	$30.100	0.885	$34.01
Average 1997 & 1998			$33.22

For future periods gross or total receipts is calculated through multiplying the trend of per-capita receipts by the projected population for the period. These calculations are shown in Table 3.

Table 3
Projected Total Lottery Receipts

Fiscal Year	Montana Population (millions)		Trend Per-Capita Receipts		Projected Total Receipts (millions)
1999	**0.893**	x	**$33.22**	=	**$29.662**
2000	**0.901**	x	**$33.22**	=	**$29.929**
2001	**0.909**	x	**$33.22**	=	**$30.194**

Calculation of Prizes and Commissions

Projected prize and commission expenses are determined by multiplying their historical percentage of receipts by projected receipts. From fiscal 1992 to fiscal 1998 the percentage of total receipts distributed as prizes and commissions has averaged 54.8%, as shown in Table 4.

Table 4
Historical Percentage of Receipts in Prizes and Commissions
(millions)

Fiscal Year	Total Receipts	PRIZES, COMMISSIONS	% Receipts In Prizes and Commissions
1992	$27.972	$15.160	54.2%
1993	$36.822	$19.801	53.8%
1994	$37.566	$20.217	53.8%
1995	$32.963	$17.955	54.5%
1996	$32.021	$17.661	55.2%
1997	$28.506	$15.878	55.7%
1998	$30.100	$16.971	56.4%
Average	1992-1998		54.8%

The average percentage, 54.8%, of total receipts distributed as prizes and commissions is multiplied by the projected receipts shown in Table 3 to make projections of prizes and commissions disbursements. These calculations are shown in Table 5.

Table 5
Projected Prizes and Commissions
(millions)

Fiscal Year	Projected Total Receipts		Avg. % Prizes and Commisions		Prizes and Commisions
1999	$29.662	x	0.548	=	$16.251
2000	$29.929	x	0.548	=	$16.397
2001	$30.194	x	0.548	=	$16.542

Calculation of Operating Expenses

Lottery operating expenses over the next three years will be higher than they have been in recent years. Operating expenses are increasing as a result of a new contract for on-line gaming services. This contract runs from March 1999 for seven years. The contract is more expensive than the current contract largely because under the new contract the Lottery will purchase the on-line gaming equipment.

An increase in scratch ticket production costs has also contributed to the increase in operating expenses. Scratch ticket sales have increased nearly 28% since fiscal 1997. The Lottery has printed more tickets to meet current demand. Also, because the production time line for printing tickets is several months, the Lottery must maintain an adequate inventory of tickets available for distribution at all times. The Lottery is working to establish this extra inventory over the next biennium. Therefore, ticket production costs over the biennium will increase.

Because these factors affect Lottery operating expenses, the Lottery staff provided estimates of operating expenses for the next three years. The estimates of operating expenses provided are presented in Table 6.

Table 6
Projected Operating Expenses
(millions)

Fiscal Year	Operating Expenses
1999	$7.072
2000	$7.396
2001	$7.320

Transfers to the General Fund

The Lottery revenue transfer to the General Fund is total receipts minus disbursements in prizes, commissions, and operating expenses. Table 7 shows the projections of transfers to the General Fund.

Table 7
Projected Lottery Transfer to the General Fund
(millions)

Fiscal Year	Projected Total Receipts		Projected Prizes and Commissions		Projected Operating Expenses		Projected Transfer to General Fund
1999	$29.66	-	$16.251	-	$7.072	=	$6.340
2000	$29.93	-	$16.397	-	$7.396	=	$6.136
2001	$30.19	-	$16.542	-	$7.320	=	$6.332

Data Sources

The data needed to perform the Lottery revenue estimate calculations made here can be obtained from the OBPP's LASR48 report, National Planning Association, and Lesley Darfler at the Montana Lottery. The LASR48 report provided data on total lottery receipts and distributions for prizes and commissions. The National Planning Association provided the Montana population estimates. Lesley Darfler provided the projected operating expenses.

CIGARETTE TAX

General Fund Revenue Estimate

Revenue Description

Section 16–11–111, MCA, directs the Department of Revenue to collect a tax of 18 cents on each pack of 20 cigarettes. If a pack contains more than twenty cigarettes, the tax is pro-rated by 1/20th of the 18-cent tax for each cigarette exceeding 20 cigarettes

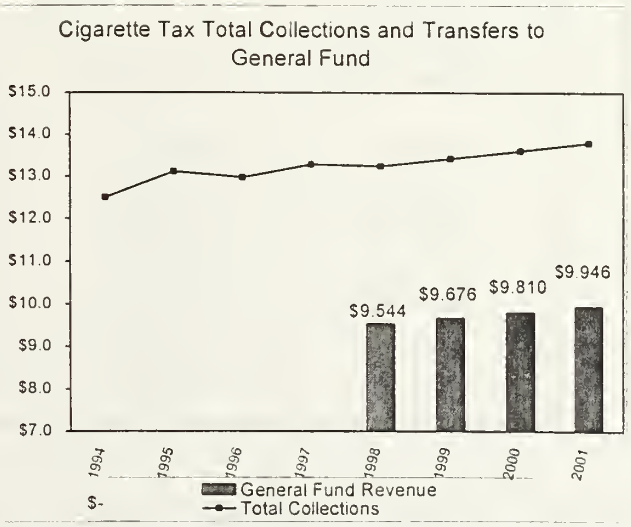
Beginning in fiscal 1998 the distribution of cigarette tax revenues, after the deduction for the Blackfeet tribal agreement is General Fund 73.04%; Department of Public Health and Human Services 11.11%; and Long Range Building Fund 15.85%.

Historical and Projected Revenue

Table 1 shows the historical and projected General Fund cigarette tax revenues. HB166 passed in 1997, changed the distribution of cigarette tax revenues. Prior to fiscal 1998, the General Fund had not received a portion of cigarette tax revenue since 1981. As Table 1 illustrates, there is a slight but steady increase in cigarette tax revenue projected for the next three years. This projected revenue increase is due to a steady trend indicating an average increase in cigarette consumption in Montana over the past five years.

Table 1
Cigarette Tax
(millions)

	Fiscal Year	Total Collections	General Fund	GF Percent Change
A	1988	$ 11.278	$ -	
A	1989	$ 11.113	$ -	N/A
A	1990	$ 11.567	$ -	N/A
A	1991	$ 11.733	$ -	N/A
A	1992	$ 12.173	$ -	N/A
A	1993	$ 12.698	$ -	N/A
A	1994	$ 12.496	$ -	N/A
A	1995	$ 13.115	$ -	N/A
A	1996	$ 12.969	$ -	N/A
A	1997	$ 13.287	$ -	N/A
A	1998	$ 13.245	$ 9.544	N/A
F	**1999**	**$ 13.427**	**$ 9.676**	**1.38%**
F	**2000**	**$ 13.615**	**$ 9.810**	**1.38%**
F	**2001**	**$ 13.802**	**$ 9.946**	**1.39%**



Cigarette Tax Total Collections and Transfers to General Fund

Forecast Methodology and Projection Calculation

All cigarettes sold or purchased in Montana are subject to this excise tax which is imposed on retail consumers and collected by wholesale or retail vendors. Wholesalers purchase insignias from the state and are allowed a discount to defray the cost of affixing the insignia and the cost of pre-collecting and remitting the tax to the state. The discount is 6.0% for the first 2,580 cartons per month, 4.0% for the next 2,580 cartons per month, and 3.0% for purchases over 5,160 cartons per month.

The wholesalers receive a refund for taxes pre-collected on cigarettes sold to tribal members on an Indian Reservation. The amount of the refund is determined by state/tribal agreement or by a quota system. The state has a quota agreement with 5 tribes and a revenue sharing agreement with the Blackfeet Reservation.

The variables used in estimating cigarette tax revenues are 1) the per capita consumption (in packs), 2) population, and 3) Blackfeet tribal agreement payment.

Table 2 shows the historical cigarette consumption, the Montana population, and the per capita consumption. The per capita consumption is total consumption divided by the population. Fiscal years 1995 to 1998 indicate a slight, steady increase in per capita consumption. This time period was used to calculate an average increase in per capita consumption of 0.449 packs per year.

Table 2
Total and Per Capita
Cigarette Consumption (Packs)

	Fiscal Year	Total Consumption		Population		Per Capita Consumption
A	1992	69,087,155	/	823,000	=	83.946
A	1993	66,968,990	/	840,040	=	79.721
A	1994	70,670,867	/	854,970	=	82.659
A	1995	77,770,480	/	868,830	=	89.512
A	1996	78,146,618	/	876,740	=	89.133
A	1997	79,306,374	/	878,810	=	90.243
A	1998	80,408,518	/	884,990	=	90.858

Applying this average increase to fiscal years 1999, 2000 and 2001 per capita consumption figures means each year reflects an increase of 0.449 packs over the previous year. Next, fiscal years 1999 to 2001 per capita consumption figures are multiplied by population to arrive at projected total consumption for fiscal years 1999 to 2001.

Table 3
Projected Cigarette Consumption (Packs)
Fiscal Years 1999 to 2001

	Prior Year Per Capita Consumption		Consumption Increase		Per Capita Consumption		Population		Total Consumption	% of Change
1999	90.858	x	0.449	=	91.307	x	892,790	=	81,518,074	1.380
2000	91.307	x	0.449	=	91.756	x	900,810	=	82,654,821	1.394
2001	91.756	x	0.449	=	92.205	x	908,790	=	83,795,081	1.380

The percent changes in consumption shown in Table 3 for fiscal years 1999 to 2001 are applied to fiscal 1998 cigarette revenue collections to project total cigarette revenue for fiscal years 1999 to 2001. Table 4 reflects these calculations.

Table 4 illustrates the deduction of the Blackfeet tribal agreement payment from the estimated total cigarette tax collections for fiscal years 1999 to 2001. These tribal payments are estimated to grow in the same proportion as total collections. Of the projected net cigarette tax collections, 73.04% is distribution to the General Fund. This is $9.676 million in fiscal 1999, $9.810 million in fiscal 2000, and $9.946 million in fiscal 2001.

Table 4
Estimated Total Cigarette Collection
Fiscal Years 1999 - 2001

	FY 1999	FY 2000	FY 2001
Fiscal 1998 Collections	$13,244,550	$13,244,550	$13,244,550
Growth in Consumption	x 0.01380	x 0.02794	x 0.04212
Total Cigarette Collections	$13,427,311	$13,614,551	$13,802,370
Blackfeet Tribel Agreement	(180,390)	(182,906)	(185,429)
	$13,246,921	$13,431,646	$13,616,914
General Fund Percentage	x 0.7304	x 0.7304	x 0.7304
General Fund Revenue	$9,675,551	$9,810,474	$9,945,814

Data Sources

The General Fund revenue transfers data is found in SBAS form 635, revenue class 0710. The Department of Commerce provided population figures. The Department of Revenue, Compliance, Valuation and Resolution Process provided consumption data.

TOBACCO PRODUCTS TAX
General Fund Revenue Estimate

Revenue Description

Section 16–11–202, Montana Code Annotated directs the Department of Revenue to collect a tax of 12.5% of the wholesale price of all tobacco products other than cigarettes sold to retail dealers in Montana. Tobacco products destined for retail sale and consumption outside Montana are not subject to this tax. This tax is sent directly to the Department of Revenue. The General Fund receives 100% of the tobacco products tax revenue.

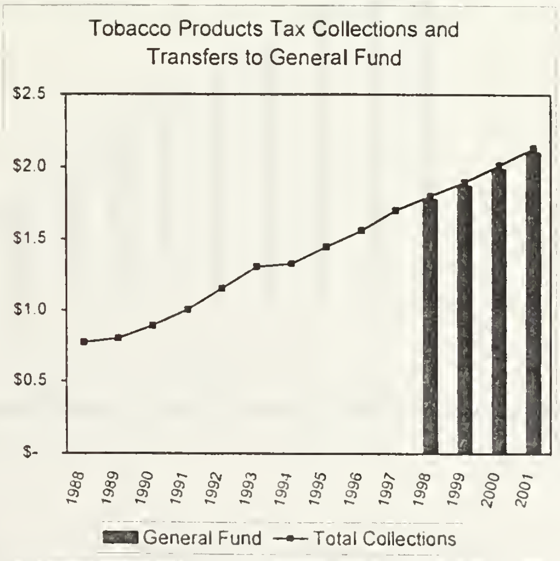
A wholesaler is allowed a 5% discount to defray collection and administrative costs. If tobacco products remain unsold, the wholesaler may receive a refund. The State of Montana has an agreement with the Blackfeet Tribe by which the state collects the tobacco products tax imposed by the Tribe for sales on the Blackfeet Reservation and remits the revenue to the Tribe.

Historical and Projected Revenue

Historical and projected revenue collections and transfers to the General Fund from tobacco products tax revenues are displayed in Table 1. Prior to fiscal 1998, tobacco tax revenues had been deposited into the Long-Range Building Debt Service Fund. Beginning fiscal 1998, these revenues are deposited directly into the General Fund. Steady growth in tobacco tax revenues is expected based on the increasing consumption observed over the past eleven years.

Table 1
Tobacco Products Tax Collections and Transfers to General Fund
(millions)

	Fiscal Year	Total Collections	General Fund	GF Percent Change
A	1988	$ 0.773	$ -	
A	1989	$ 0.803	$ -	
A	1990	$ 0.893	$ -	
A	1991	$ 1.007	$ -	
A	1992	$ 1.155	$ -	
A	1993	$ 1.309	$ -	
A	1994	$ 1.329	$ -	
A	1995	$ 1.446	$ -	
A	1996	$ 1.561	$ -	
A	1997	$ 1.702	$ -	
A	1998	$ 1.801	$ 1.779	
F	**1999**	$ 1.898	$ 1.874	5.36%
F	**2000**	$ 2.013	$ 1.988	6.09%
F	**2001**	$ 2.130	$ 2.104	5.82%



Forecast Methodology and Projected Calculation

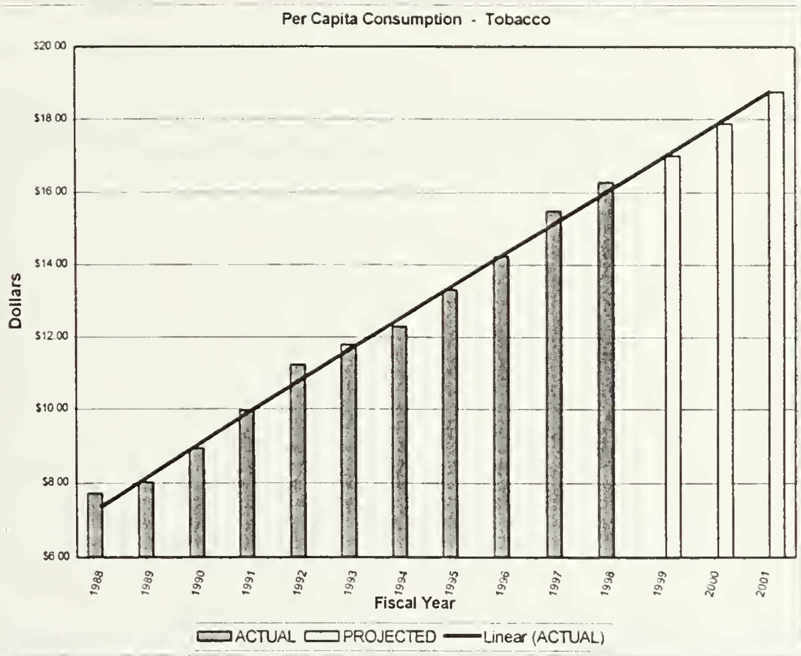
The variables to be used in estimating tobacco products tax revenues are 1) tax rate (12.5% of the wholesale price), 2) per capita consumption (in dollars), 3) population, and 4) Blackfeet tribal agreement payment.

The tax rate is known. The values for population are taken from Department of Commerce, Census and Economic Information Center. The per capita consumption is determined by a time trend using fiscal years 1988 - 1998 consumption in dollars. The amount of the Blackfeet tribal agreement payment is calculated based on a proportional growth in total collections.

The growth trend for per capita tobacco products consumption illustrated in Table 2 conforms well to linear regression analysis. Table 2 displays a regression analysis performed on fiscal years 1988 though 1998 data, projecting future consumption for fiscal years 1999 through 2001. The regression has an R-squared of 0.993. Because an R-squared of 1.0 would suggest a perfect functional relationship between fiscal year and per capita consumption, the R-squared of 0.993 indicates this regression produces a good fit. This supports a predictable relationship between fiscal year and per capita consumption.

Table 2
Per Capita Tobacco Products Consumption
Regression Results

Fiscal Year	Per Capita Consumption	Percent Change
A 1988	$7.734	NA
A 1989	$8.026	3.77%
A 1990	$8.931	11.28%
A 1991	$9.969	11.63%
A 1992	$11.223	12.58%
A 1993	$11.782	4.98%
A 1994	$12.287	4.29%
A 1995	$13.315	8.37%
A 1996	$14.234	6.90%
A 1997	$15.494	8.85%
A 1998	$16.281	5.08%
F 1999	$17.003	4.44%
F 2000	$17.879	5.15%
F 2001	$18.754	4.90%



Once total tobacco products consumption is determined, the revenue calculations as shown in Table 3 are completed. Total tobacco products tax revenue is equal to per capita consumption multiplied by the population and the tax rate. Next, the Blackfeet tribal agreement payment is deducted, based on a proportional growth in total collections.

Table 3
Calculation of General Fund Tobacco Products Tax

Description	FY 1999 Estimated	FY 2000 Estimated	FY 2001 Estimated
Per Capita Consumption in Dollars	$17.0034	$17.8786	$18.7538
Multiply by Estimated MT Population	892,790	900,810	908,790
Estimated Consumption for MT (in dollars)	15,180,465	16,105,222	17,043,266
Multiply by Tax Rate	12.5%	12.5%	12.5%
Total Forecasted Tax Collections	$ 1,897,558	$ 2,013,153	$ 2,130,408
Deduct Blackfeet Tribal Agreement Pymt	(23,532)	(24,965)	(26,419)
Tobacco Products Tax - General Fund	$ 1,874,026	$ 1,988,188	$ 2,103,989

Data Sources

The General Fund revenue transfers data is found in SBAS form 635, revenue class 0860. The Department of Commerce provided population figures used in estimates.

LIQUOR EXCISE TAX

General Fund Revenue Estimate

Revenue Description

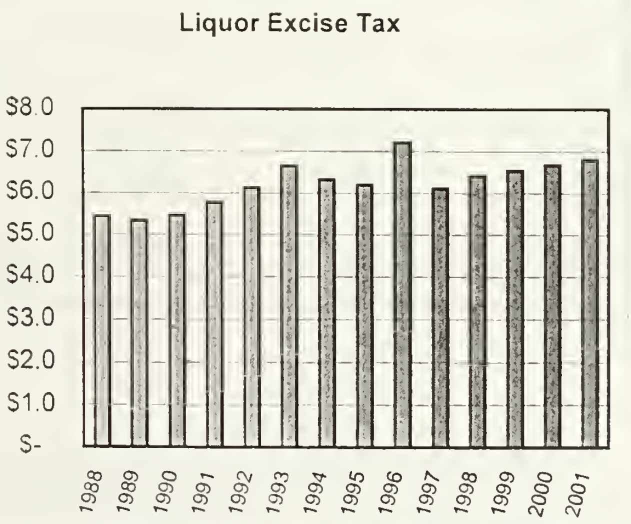
Section 16-1-401, Montana Codes Annotated directs the Department of Revenue to collect an excise tax of 16% of the retail selling price on all liquor sold and delivered in the state, or 13.8% of the retail selling price if the liquor manufacturer sold not more than 200,000 proof gallons of liquor nationwide in the preceding calendar year. This tax is paid directly by liquor storeowners when they purchase liquor from the state liquor warehouse. A small portion of liquor excise tax revenue is refunded to three Tribes that have an agreement with the state. As required by law, liquor excise tax revenue is retained in a separate account and credited to the General Fund monthly. The liquor excise tax was enacted in 1937.

Historical and Projected Revenue

Table 1 presents historical and projected revenue for this General Fund revenue source for fiscal years 1988 to 2001.

Table 1
Liquor Excise Tax Historical and Forecast Collections
(millions)

	Fiscal Year	Total Collections		Percent Change
A	1988	$	5.429	NA
A	1989	$	5.323	-1.96%
A	1990	$	5.458	2.54%
A	1991	$	5.759	5.52%
A	1992	$	6.122	6.30%
A	1993	$	6.645	8.54%
A	1994	$	6.324	-4.83%
A	1995	$	6.200	-1.96%
A	1996	$	7.203	16.17%
A	1997	$	6.107	-15.21%
A	1998	$	6.412	5.00%
F	**1999**	**$**	**6.538**	**1.96%**
F	**2000**	**$**	**6.669**	**2.00%**
F	**2001**	**$**	**6.803**	**2.01%**



Liquor tax receipts have been variable over the last few years, reflecting fluctuating liquor unit sales, increasing liquor costs, and a spike in fiscal 1996 due to sales from privatization. When privatization occurred, the state sold state-owned liquor merchandise in the state liquor stores to the new storeowners. This resulted in higher dollar and unit sales but not increased consumption.

Forecast Methodology and Projection Calculation

Liquor excise tax receipts are estimated as a percent of the retail selling value of liquor sold. This calculation is summarized in Table 2 and discussed in detail in this section.

Table 2
Liquor Excise Tax Calculation Summary

Description	FY 1999 Estimated	FY 2000 Estimated	FY 2001 Estimated
Number of Liquor Units	4,714,471	4,714,471	4,714,471
Multiplied by: Cost per Liquor Unit	$ 6.301	$ 6.427	$ 6.555
Cost of Liquor Units Sold	$ 29,704,106	$ 30,298,189	$ 30,904,152
Multiplied by: Gross Sales to Cost Ratio	1.7644	1.7644	1.7644
Equals:			
Gross Sales	$ 52,408,760	$ 53,456,935	$ 54,526,074
Divided by: 1 + Combined Liquor Excise and Liquor License Tax Rate	1.26	1.26	1.26
Retail Selling Value	$ 41,594,254	$ 42,426,139	$ 43,274,662
Multiplied by: Liquor Excise Tax Rate	0.16	0.16	0.16
Gross Est. Liquor Excise Tax Receipts	$ 6,655,000	$ 6,788,000	$ 6,924,000
Less Estimated Tribal Refunds	(117,000)	(119,000)	(121,000)
Net Est. Liquor Excise Tax Receipts	$ 6,538,000	$ 6,669,000	$ 6,803,000

Step 1: Calculate Gross Sales

The first step in calculating estimated liquor excise tax receipts is to calculate gross sales. There are three components to this calculation: the number of liquor units sold, the cost per liquor unit, and the gross sales to cost ratio. Each component is estimated for the forecast period from historical trends. The

historical data and annual percent change for each component is shown in Tables 3-5.

The number of liquor units sold in fiscal years 1995 through 1998 is presented on Table 3. Fiscal 1996 units have been adjusted to reflect the number of units that would have been sold had privatization not occurred. Because of the variability in the number of liquor units sold in recent years, the projected number of liquor units was held at the fiscal 1998 level through the 2001 biennium.

Table 3
Liquor Units Sold Historical and Projected Fiscal Years 1995 - 2001

	Fiscal Year	Number of Units	Annual % Change
A	1995	4,751,796	
A*	1996	4,725,388	-0.56%
A	1997	4,586,930	-2.93%
A	1998	4,714,471	2.78%
F	1999	4,714,471	0.00%
F	2000	4,714,471	0.00%
F	2001	4,714,471	0.00%

*Adjusted for privatization

The cost per liquor unit is the cost of goods sold divided by the number of liquor units sold. The cost per liquor unit and the annual percent change for fiscal years 1995 through 1998 is shown in Table 4. The cost per liquor unit for the forecast period was estimated to increase 2 percent annually from the fiscal 1998 level.

The sales to cost ratio is gross sales divided by the cost of goods sold. This ratio and the annual percent change for fiscal years 1995 through 1998 is shown in Table 5 on the following page. The ratio decreased slightly between fiscal years 1995 and 1997, increased slightly between fiscal years 1997 and 1998, and is held constant at the fiscal 1998 level for the forecast period.

Table 4
Cost per Liquor Unit-Historical and Projected Fiscal Years 1995 - 2001

	Fiscal Year	Cost of Goods sold	Number of Units	Cost per Unit	Annual % Change
A	1995	$ 27,943,898	4,751,796	$ 5.881	
A	1996	$ 32,571,661	5,527,596	$ 5.893	0.20%
A	1997	$ 27,823,039	4,586,930	$ 6.066	2.94%
A	1998	$ 29,121,673	4,714,471	$ 6.177	1.84%
F	1999			$ 6.301	2.00%
F	2000			$ 6.427	2.00%
F	2001			$ 6.555	2.00%

Table 5
Historical and Projected Sales to Cost Ratio
Fiscal Years 1995 - 2001

	Fiscal Year	Gross Sales	Cost of Goods Sold	Sales to Cost Ratio	Annual % Change
A	1995	$ 49,694,073	$ 27,943,898	1.7784	
A	1996	$ 57,532,232	$ 32,571,661	1.7663	-0.68%
A	1997	$ 49,065,494	$ 27,823,039	1.7635	-0.16%
A	1998	$ 51,381,137	$ 29,121,673	1.7644	0.05%
F	1999			1.7644	0.00%
F	2000			1.7644	0.00%
F	2001			1.7644	0.00%

Gross sales for fiscal years 1999 through 2001 is calculated as the product of the projected number of liquor units sold, the estimated cost per unit, and the projected sales to cost ratio. This calculation is presented in Table 6.

Table 6
Estimated Gross Liquor Sales
Fiscal Years 1999 - 2001

Fiscal Year	Number of Liquor Units	Cost per Unit	Sales/Cost Ratio	Estimated Gross Sales
1999	4,714,471	$ 6.30	1.7644	$ 52,408,760
2000	4,714,471	$ 6.43	1.7644	$ 53,456,935
2001	4,714,471	$ 6.56	1.7644	$ 54,526,074

Step 2: Calculate Retail Selling Value

The liquor storeowner pays both liquor excise and liquor license taxes at the time of liquor purchase. These taxes are included in the gross sales estimate in Table 6. In order to estimate the retail value of liquor sales, the sum of one plus the combined liquor excise and liquor license tax rate is divided into estimated gross liquor sales. This calculation for fiscal years 1999 through 2001 is shown in Table 7.

Table 7
Calculation of Estimated Retail Value of Liquor Sales
Fiscal Years 1999 - 2001

Fiscal Year		Estimated Gross Sales	/	1 + (Combined Tax Rate*)	=	Estimated Retail Value
1999	$	52,408,760	/	1.26	=	$ 41,594,254
2000	$	53,456,935	/	1.26	=	$ 42,426,139
2001	$	54,526,074	/	1.26	=	$ 43,274,662

*Combined Liquor Excise and Liquor License Taxes

Step 3: Calculate Gross Liquor Excise Tax Collections

Liquor excise tax receipts are estimated by multiplying the estimated retail value of liquor sales by the liquor excise tax rate. The calculation of the liquor excise tax receipts for fiscal years 1999 through 2000 is shown in Table 8.

Table 8
Calculation of Estimated Gross Liquor Excise Tax
Fiscal Years 1999 - 2001

Fiscal Year		Estimated Retail Value	x	Liquor Excise Tax Rate	=		Estimated Gross Liquor Excise Tax
1999	$	41,594,254	x	16%	=	$	6,655,000
2000	$	42,426,139	x	16%	=	$	6,788,000
2001	$	43,274,662	x	16%	=	$	6,924,000

Step 4: Calculate Net Liquor Excise Tax – General Fund Revenue

Finally, the amount of liquor excise tax receipts that are transferred to the General Fund is calculated by subtracting the estimated amount of tribal refunds from the gross liquor excise tax projection. Historically, tribal refunds have varied from $100,000 to $125,000 annually depending upon the tribes' proportion of statewide per capita consumption. The calculation of liquor excise tax transferred to the General Fund is shown in Table 9.

Table 9

Calculation of Estimated Net Liquor Excise Tax

Fiscal Years 1999 - 2001

Fiscal Year	Estimated Gross Liquor Excise Tax	-	Estimated Tribal Refunds	=	Estimated Net Liquor Excise Tax
1999	$ 6,655,000	-	$ 117,000	=	$ 6,538,000
2000	$ 6,788,000	-	$ 119,000	=	$ 6,669,000
2001	$ 6,924,000	-	$ 121,000	=	$ 6,803,000

Data Sources

The calculation of liquor excise tax receipts is straightforward. However, as noted above, gross sales must be estimated prior to the calculation of excise tax receipts. The data needed to estimate gross sales are obtained from two reports: the monthly cost of sales report and the Liquor Distribution annual financial schedules. The monthly cost of sales report shows the number of liquor units sold. The annual profit and loss financial schedule provides the historical financial data used to calculate cost ratios.

Actual liquor excise tax receipts are recorded on the state accounting system in state revenue class 0750. Transfers of liquor excise tax receipts to the General Fund and to the tribes are recorded in state revenue class 3205. Either SBAS report 631 or 635 will provide the data needed.

LIQUOR PROFITS
General Fund Revenue Estimate

Revenue Description

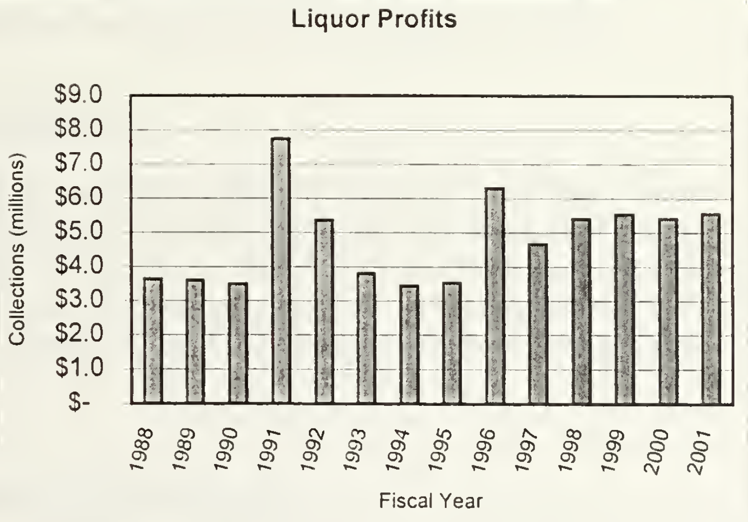
The Department of Revenue administers liquor laws relating to alcoholic beverage control, sale and distribution, and the licensing of alcoholic beverage manufacturers, wholesalers and retailers (Title 16, Chapters 1 through 6, MCA). Agency franchisees purchase liquor products from the State Liquor Warehouse. A 40% markup on the State's base costs covers the operating costs of the state liquor system and provides a net profit. Liquor profits are credited to the General Fund at fiscal year end.

Historic and Projected Revenue

Table 1 shows historic and projected collections from this revenue source from fiscal years 1988 through 2001.

Table 1
Liquor Profits Historical and Forecast Transfers to General Fund
(millions)

	Fiscal Year	Profit Transfers	Percent Change
A	1988	$ 3.633	NA
A	1989	$ 3.600	-0.91%
A	1990	$ 3.500	-2.78%
A	1991	$ 7.750	121.43%
A	1992	$ 5.363	-30.80%
A	1993	$ 3.800	-29.14%
A	1994	$ 3.438	-9.54%
A	1995	$ 3.537	2.90%
A	1996	$ 6.300	78.10%
A	1997	$ 4.675	-25.79%
A	1998	$ 5.400	15.51%
F	**1999**	**$ 5.544**	**2.67%**
F	**2000**	**$ 5.415**	**-2.33%**
F	**2001**	**$ 5.556**	**2.60%**



Forecast Methodology and Projection Calculation

The liquor profit transfer to the General Fund is derived from net income from liquor operations less an allowance for working capital. Net income from liquor operations is calculated as gross liquor sales minus cost of goods sold, liquor taxes (liquor excise tax and liquor license tax), discounts and commissions and operating expenses. This calculation is shown in Table 2 and discussed in detail in this section.

Table 2
Liquor Profits Calculation Summary

Description	FY 1999 Estimated	FY 2000 Estimated	FY 2001 Estimated
Gross Liquor Sales	$ 52,408,760	$ 53,456,935	$ 54,526,074
Less:			
Cost of Goods Sold	29,704,106	30,298,189	30,904,152
Liquor Taxes	10,814,000	11,031,000	11,251,000
Discounts	1,042,953	1,063,812	1,085,088
Commissions	4,121,949	4,204,388	4,288,476
Operating Expenses	981,549	1,244,587	1,241,238
Net Income from Liquor Sales	$ 5,744,202	$ 5,614,959	$ 5,756,119
Less Working Capital	200,000	200,000	200,000
Liquor Profit to General Fund	$ 5,544,202	$ 5,414,959	$ 5,556,119

Step 1: Calculate Gross Liquor Sales

The first step in calculating estimated liquor profits is to estimate gross liquor sales for the forecast period. The calculation for estimated gross liquor sales is shown in detail on **page** ___ in the Liquor Excise Tax – General Fund Revenue Estimate section of this document and for space considerations will not be duplicated here. Please refer to that section for details on the assumptions used to estimate gross liquor sales.

Step 2: Calculate Liquor-related Costs and Taxes

The next step in calculating estimated liquor profits is to estimate the costs associated with the state liquor operation. These costs include the cost of goods sold, the liquor taxes collected at the time of sale, sales commissions and discounts, and liquor related operating expenses in the Department of Revenue.

Cost of Goods Sold – This cost is estimated by multiplying the estimated number of liquor units sold by the estimated cost per unit. This calculation is shown in Table 3.

Table 3
Historical and Projected Cost of Goods Sold
Liquor Enterprise Operation

	Fiscal Year	Number of Units	X	Cost per Unit	=	Cost of Goods Sold	Annual % Change
A	1995	4,751,796	X	$ 5.88	=	$ 27,943,898	
A*	1996	4,725,388	X	$ 5.89	=	$ 27,844,607	-0.4%
A	1997	4,586,930	X	$ 6.07	=	$ 27,823,039	-0.1%
A	1998	4,714,471	X	$ 6.18	=	$ 29,121,673	4.7%
F	1999	4,714,471	X	$ 6.30	=	$ 29,704,106	2.0%
F	2000	4,714,471	X	$ 6.43	=	$ 30,298,189	2.0%
F	2001	4,714,471	X	$ 6.56	=	$ 30,904,152	2.0%

*Number of Units adjusted for privatization

Liquor Taxes – Liquor excise taxes and liquor license taxes are paid by the liquor storeowner at the time of purchase. Liquor excise taxes are transferred to the General Fund as required by law; a small amount is refunded to Indian Tribes that have an agreement with the State. Liquor license taxes are distributed to local governments and the Montana Department of Public Health and Human Services to fund alcohol treatment programs.

Because the liquor taxes are paid at the time of purchase, the tax is included in the gross sales amount. In order to estimate the amount of liquor taxes collected, gross sales is divided by one plus the combined tax rate (1+.26) and that result is multiplied by the combined tax rate. This calculation is shown in Table 4.

Table 4
Projected Liquor Taxes (Rounded)
Fiscal Years 1999 - 2001

Fiscal Year	Gross Sales	/	1 + Combined Tax Rate	X	Combined Tax Rate	=	Projected Liquor Taxes
1999	$52,408,760	/	1.26	X	0.26	=	$10,815,000
2000	$53,456,935	/	1.26	X	0.26	=	$11,031,000
2001	$54,526,074	/	1.26	X	0.26	=	$11,251,000

Sales Commissions and Discounts – Sales commissions are commissions paid to liquor storeowners by the State of Montana. The commission rate was negotiated with liquor storeowners when privatization occurred and can vary among storeowners. Recent negotiations between the Department of Revenue and some storeowners resulted in an increase in the overall commission rate used to estimate this cost for the forecast period.

Discounts are offered to liquor storeowners if the liquor inventory is purchased in case lots. The effective discount rate has remained fairly constant over the last few years and is not expected to change significantly in the forecast period.

Both commissions and discounts are expressed as a percent of gross sales and the calculation of these costs for the forecast period is shown in Table 5.

Table 5
Projected Commissions and Discounts

Fiscal Year	Gross Sales	Commission	Percent of Gross Sales	Discount	Percent of Gross Sales
1998	$51,381,137	$3,885,587	7.56%	$1,022,503	1.99%
1999	$52,408,760	$4,121,949	7.87%	$1,042,953	1.99%
2000	$53,456,935	$4,204,388	7.87%	$1,063,812	1.99%
2001	$54,526,074	$4,288,476	7.87%	$1,085,088	1.99%

Liquor-related Operating Expenses – These expenses include liquor distribution costs. Also included is the Executive's proposal to include $195,986 in fiscal 2000 and $196,253 in fiscal 2001 for computer and support costs previously funded from the General Fund. Operating expenses are shown on Table 2 of this narrative.

Data Sources

The data needed to estimate liquor profits comes from two reports: the monthly cost of sales report and the Liquor Distribution annual financial schedules. The monthly cost of sales report shows the number of liquor units sold. The annual profit and loss financial schedule provides the historical financial data used to calculate cost ratios.

Actual liquor profit transferred to the General Fund is recorded on the state accounting system in state revenue class 3207. Either SBAS report 631 or 635 will provide the data needed.

WINE TAX

General Fund Revenue Estimate

Revenue Description

Section 16–1–411, Montana Code Annotated directs the Department of Revenue to collect a tax of 27 cents on each liter of table wine imported by a table wine distributor or the department. A tax of 3.7 cents per liter is imposed on hard cider imported by a table wine distributor or the department.

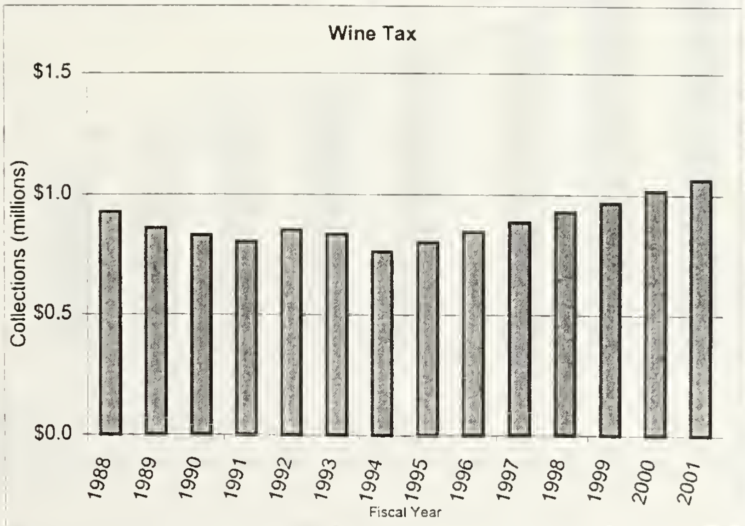
The Department of Public Health and Human Services receives 31% of wine tax revenues. Cities and towns receive 5%. Counties receive 5%. The General Fund receives the remaining 59%. A small portion of wine tax revenue is refunded from the General Fund to the Tribes that have an agreement with the state. Currently the state has agreements with the Blackfeet, Fort Peck, and Fort Belknap Tribes.

Historical and Projected Revenue

Historical and projected revenue collections and transfers to the General Fund from wine tax revenues are displayed in Table 1. Steady growth in wine tax revenues is expected based on the increasing consumption observed over the past four years.

Table 1
Wine Tax
General Fund Revenues
(millions)

	Fiscal Year	General Fund	Percent Change
A	1988	$ 0.930	NA
A	1989	$ 0.862	-7.31%
A	1990	$ 0.832	-3.48%
A	1991	$ 0.805	-3.25%
A	1992	$ 0.853	5.96%
A	1993	$ 0.835	-2.11%
A	1994	$ 0.764	-8.50%
A	1995	$ 0.801	4.84%
A	1996	$ 0.846	5.62%
A	1997	$ 0.887	4.85%
A	1998	$ 0.930	4.85%
F	**1999**	**$ 0.968**	**4.09%**
F	**2000**	**$ 1.016**	**4.96%**
F	**2001**	**$ 1.064**	**4.72%**



Forecast Methodology and Projection Calculation

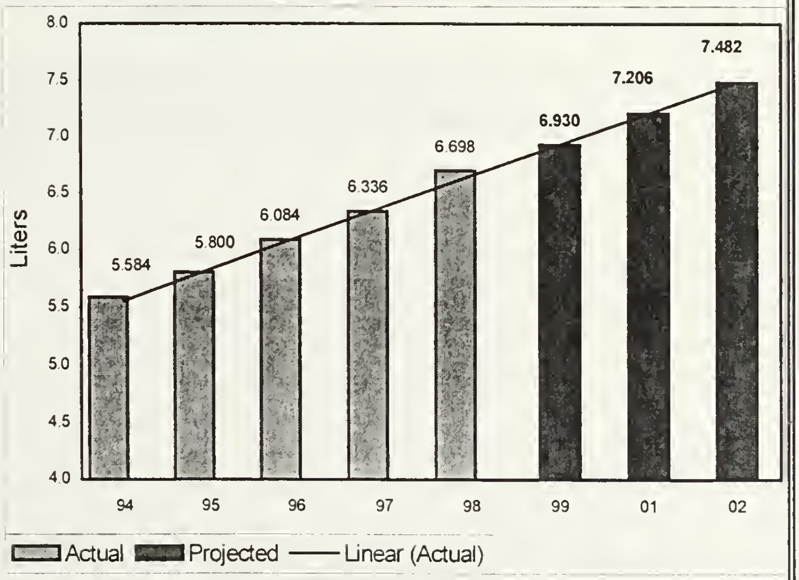
The variables to be used in estimating wine tax revenues are 1) tax rate ($0.27/per liter of wine), 2) per capita consumption (in liters), 3) population, and 4) refunds to the Tribes.

The tax rate is known. The values for population are taken from Department of Commerce, Census and Economic Information Center. The per capita consumption of liters is determined by a time trend using fiscal years 1994 - 1998 consumption. The amount of refunds is calculated based on a proportional growth using the time trended consumption figures. An adjustment was made to fiscal 1999 estimated refunds to correct an accounting error in fiscal 1998 refunds paid.

The growth trend for per capita wine consumption conforms well to linear regression analysis. Table 2 displays a regression analysis performed on fiscal years 1994 – 1998 data, projecting future consumption for fiscal years 1999 – 2001. The regression has an R-squared of 0.9924. An R-squared of 1.0 would suggest a perfect functional relationship between fiscal year and per capita consumption. The R-squared of 0.9924 for this regression indicates a good fit. This good fit supports a predictable relationship between fiscal year and per capita consumption.

Table 2
Per Capita Wine Consumption
Regression Results

Fiscal Year	Per Capita Consumption	Percent Change
A 1994	5.5840	NA
A 1995	5.8001	3.87%
A 1996	6.0845	4.90%
A 1997	6.3360	4.13%
A 1998	6.6981	5.72%
F 1999	**6.9296**	**3.46%**
F 2000	**7.2059**	**3.99%**
F 2001	**7.4824**	**3.84%**



Once total wine consumption is determined, the revenue calculations shown in Table 3 are completed. Total wine tax revenue is equal to per capita consumption multiplied by the population and the tax rate. The total revenue is then multiplied by the 59% percent allocated to the General Fund. The final calculation removes refunds to Tribes from the General Fund allocation.

Table 3
Calculation of General Fund Wine Tax

Description	FY 1999 Estimated	FY 2000 Estimated	FY 2001 Estimated
Per Capita Consumption in Liters	6.9296	7.2060	7.4824
Multiply by Estimated MT Population	892,790	900,810	908,790
Estimated Liters of Consumption for MT	6,186,678	6,491,237	6,799,930
Multiply by Tax Rate per Liter	$0.27	$0.27	$0.27
Total forecasted tax collections	$1,670,403	$ 1,752,634	$1,835,981
Multiplied by General Fund %	59.00%	59.00%	59.00%
General Fund Before Tribe Refunds	$ 985,538	$ 1,034,054	$1,083,229
Refunds for Tribes from General Fund	(18,915)	(17,938)	(18,791)
Total to General Fund	$ 966,623	$ 1,016,116	$1,064,438

Data Sources

The General Fund revenue transfers data is found in SBAS form 635, revenue class 0890. The Department of Commerce provided population figures.

BEER LICENSE TAX

General Fund Revenue Estimate

Revenue Description

Section 16–1–406, Montana Code Annotated directs the Department of Revenue to collect a tax of $4.30 per barrel on each barrel of beer sold in Montana by a wholesaler. Each barrel consists of 31 gallons.

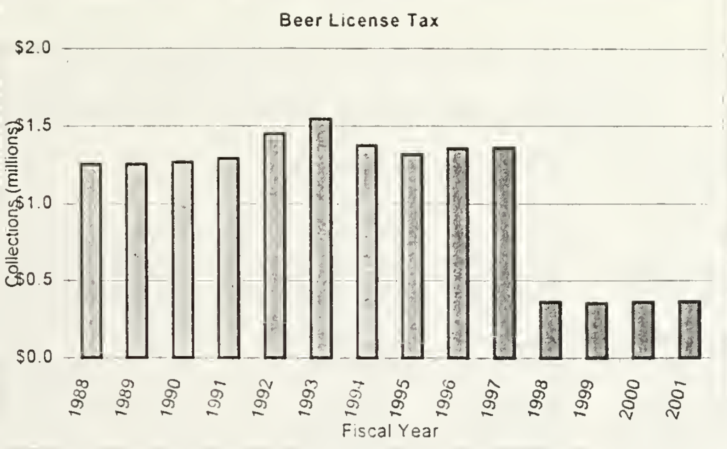
The Department of Public Health and Human Services receives 23.25% of beer license tax revenues. Cities and towns receive 65.12%. The General Fund receives the remaining 11.63%. A small portion of beer license tax revenue is refunded from the General Fund to the Tribes that have a revenue sharing agreement with the state. Currently the state has agreements with three Tribes. These are the Blackfeet, Fort Peck, and Fort Belknap Tribes.

Historical and Projected Revenue

Historical and projected revenue collections and transfers to the General Fund from beer license tax revenues are displayed in Table 1. From fiscal 1997 to fiscal 1998 General Fund revenues dropped $998,436. This decrease was due to HB166 passed in 1997 that changed the distribution of beer license tax revenues. General Fund revenues dropped from 41.86% of beer license tax revenues to 11.63%. Cities and towns' share of beer license tax revenues increase from 34.88% to 65.12% of the total revenues.

Table 1
Beer License Tax
General Fund Revenues
(millions)

	Fiscal Year	General Fund	Percent Change
A	1988	$ 1.255	NA
A	1989	$ 1.256	0.08%
A	1990	$ 1.268	0.96%
A	1991	$ 1.293	1.97%
A	1992	$ 1.453	12.37%
A	1993	$ 1.545	6.33%
A	1994	$ 1.376	-10.94%
A	1995	$ 1.317	-4.29%
A	1996	$ 1.356	2.96%
A	1997	$ 1.357	0.07%
A	1998	$ 0.358	-73.62%
F	**1999**	**$ 0.352**	**-1.68%**
F	**2000**	**$ 0.359**	**1.99%**
F	**2001**	**$ 0.362**	**0.84%**



Forecast Methodology and Projection Calculation

The variables to be used in estimating beer license tax revenues are 1) tax rate ($4.30/per barrel), 2) per capita consumption (in barrels), 3) population, and 4) refunds.

The tax rate is known. The values for population are taken from the Department of Commerce, Census and Economic Information Center. The per capita consumption of barrels is determined by an average of fiscal years 1994 through 1998 consumption. The amount of refunds is calculated based on a proportional growth in total collections. An adjustment was made to fiscal 1999 estimated refunds to correct an accounting error in fiscal 1998 refunds paid.

Fiscal years 1994 - 1998 average per capita consumption was chosen as an estimate for fiscal years 1999, 2000, and 2001 per capita consumption. This is because no significant trend was indicated from the regression models calculated for fiscal years 1994 – 1998. The per capita data used to calculate the fiscal years 1994 – 1998 average per capita consumption appears in Table 2.

Table 2
Average Per Capita Consumption

FY	Per Capita Consumption in Barrels
94	0.8775
95	0.8607
96	0.8833
97	0.8570
98	0.8736
Average	0.8704

Total beer license tax revenue is equal to per capita consumption multiplied by the population and the tax rate. The total revenue is then multiplied by the percent allocated to the General Fund (11.63%). The final calculation removes refunds to Tribes from the General Fund allocation. Table 3 runs through the steps of these calculations.

Table 3
Calculation of General Fund Beer License Tax Revenue Estimate

Description	FY 1999	FY 2000	FY 2001
Per Capita Consumption in Barrels	0.8704	0.8704	0.8704
Multiply by Estimated MT Population	892,790	900,810	908,790
Estimated Barrels of Consumption for MT	777,084	784,065	791,011
Multiply by Tax Rate per Barrel	$4.30	$4.30	$4.30
Total forecasted tax collections	3,341,463	3,371,480	3,401,347
Multiplied by % that goes to General Fund	11.63%	11.63%	11.63%
	388,612	392,103	395,577
Subract Refunds for Tribes from General Fund	(36,904)	(32,977)	(33,269)
Total to General Fund	**$351,708**	**$359,126**	**$362,308**

Data Sources

The General Fund revenue transfers data is found in SBAS form 635, revenue class 0700. The Department of Commerce provided population figures.